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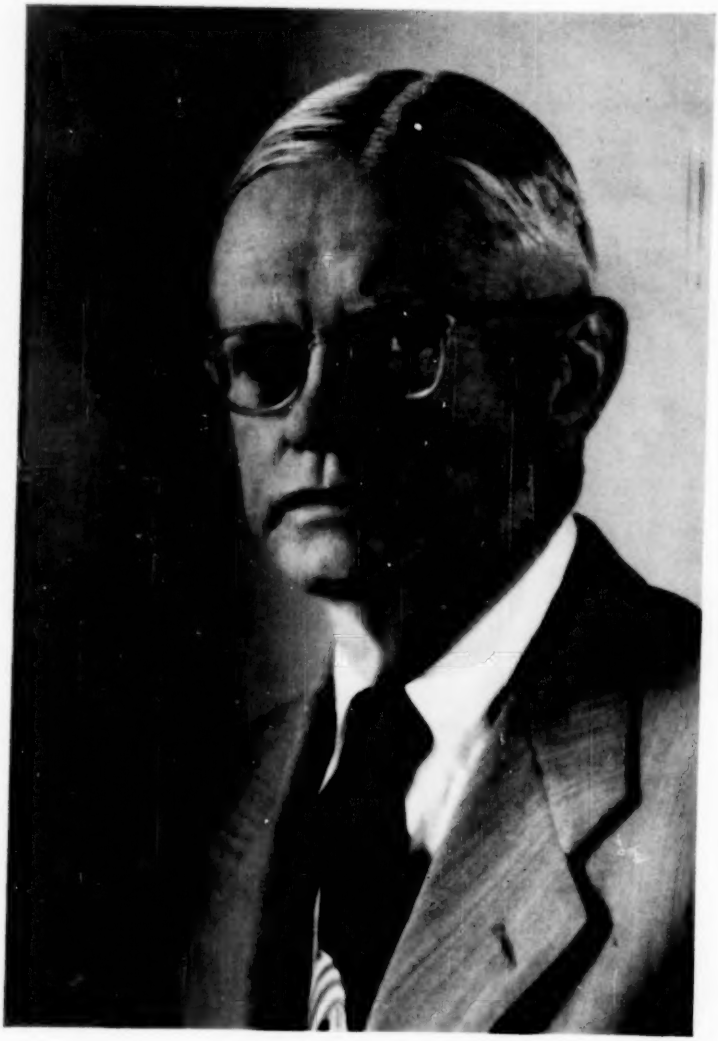

R P Brooks

Fifth President of the Southern Economic Association, 1933–1934

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PATTERNS OF ECONOMIC DEVELOPMENT*

B. U. RATCHFORD
Duke University

The subject of economic growth and development has always been of interest to economists. In recent years, however, it has come to have a special interest and significance in the Western World and especially in the United States. As a case study in this field I would like to consider some aspects of the economic development of the South during the two decades from 1930 to 1950. (In some instances 1929 is taken as the starting year because better and more comparable data are available for that year.) In this my primary purpose will be to describe the larger structural and functional changes which have taken place in one rapidly changing economy but it may also be possible at the end to make some comparisons and generalizations which are significant for the general subject of economic growth. For this purpose the South includes the 13 states extending from the Potomac to the Rio Grande.

During the past two decades there were developments of unusual scope and significance in the South; in a sense the process of economic growth was speeded up so that changes which ordinarily would require several decades were telescoped into one or two. This offsets some of the disadvantages of using such a short period as 20 years for the study of economic change. Moreover, while the South is not an economic unit and is greatly different from most of the underdeveloped countries of the world, there are advantages in studying a region of an advanced country. As J. M. Clark has pointed out, "Some of the factors that determine differences in the rate and structure of economic growth stand out . . . more clearly in an intra-national comparison of regions than in the comparison among the different national states."[1]

I

The general story of the South's economic progress in recent years is well known and I shall not repeat it here. Rather, as background for the discussion to follow I shall list a few broad measures of that development. Most of these measures will be stated as percentages of United States' totals. This means that the basis of comparison is the phenomenal performance of the national economy during this period. In the aggregate that performance was certainly most striking, if not

* Presidential address delivered at the twenty-third annual conference of the Southern Economic Association, Atlanta, Georgia, Nov. 13, 1953.

[1] Universities-National Bureau Committee on Economic Research, *Problems in the Study of Economic Growth*, New York, 1949, p. 13.

amazing; despite several years of severe depression, the gross national product of the United States, in constant dollars, exactly doubled between 1930 and 1950.[2] Probably such a quantitative expansion in such a short period of time has rarely if ever been equaled in history.

As points of reference it should be noted that the South contains 13 of the Nation's 48 states and 28.3 per cent of the land area of the country. Population is both a reference point and also a broad measure of economic growth. While there were variations during the period, in 1950 the South had almost exactly the same proportion of the Nation's population as in 1930—between 27 and 28 per cent. This means that the South had about the same rate of population growth as the rest of the country during these two decades. For our comparisons this means that an increase in the South's proportion of national totals will also represent roughly a corresponding relative increase in per capita figures.

Since they cover every segment of the economy, income payments to individuals constitute one of the broadest and most significant measures of economic activity and development. In 1929 the South received 15.0 per cent of all such payments made in the United States; by 1950 its share had increased to 19.7 per cent. In current dollars the totals rose from 12.4 billions to 42.8 billions, an increase of 245 per cent which may be compared with an increase of 149 per cent for the non-South.

In our present society there is likely to be a close correlation between income and automobiles. In 1930 the South had 20.1 per cent of all motor vehicles registered in the United States; in 1950 it had 24.2 per cent. It may be significant that in both years these figures were substantially higher than the figures for income payments.

The use of electric energy is another broad and significant measure of economic activity; in a very real sense it represents the pulse of the economy. In 1930 the South produced 15.0 per cent of all the electric energy generated in the country; by 1950 the figure had risen sharply to 24.2 per cent. In absolute terms the increase was almost seven fold—from 14.2 billion kilowatt hours to 94.0 billions. In both absolute and relative terms, the use of electricity showed a greater increase than any other of the measures used here.

For a final measure of growth we may turn to the field of finance. In 1930 the resources of all active banks in the South were equal to 8.9 per cent of the total for the country; in 1950 the proportion was 14.6 per cent. While there was a substantial increase here the proportions for both years were substantially lower than those for any of the other measures used.

The factors measured by these data are broad general factors which touch every phase of the economy. Two of the measurements are in dollar terms; the others are in real terms. Except for population the South made substantial and remarkably uniform gains. In income payments, motor vehicle registration, and bank resources the gains were close to five percentage points of the national totals; in electric power production it was over nine points. In view of the remark-

[2] The amounts, in 1939 dollars, were $78.1 billion for 1930 and $156.2 billion for 1950. *Survey of Current Business*, July, 1953, pp. 26–27.

able increases in the national totals, there are truly striking advances for a period of two decades.

II

A brief analysis of the movements and changing sources of income payments will perhaps most quickly indicate the major economic changes which have been going on in the region. A striking feature of the movements of income payments is the fact that practically all the relative gains made by the South in these two decades were realized during two comparatively brief periods totaling seven years—1932–34 and 1941–44. In fact, the gains made in these two periods were more than the net gain realized from 1929 to 1950 since there were declines in a few years. The periods in which the gains were made were periods of recovery, expanding employment, and rising prices. In 1946–48, however, when prices were rising most rapidly but after full employment had been attained, the South sustained slight relative losses. These movements suggest that an important condition for economic growth in the South is a rising demand for labor which reduces the large reservoir of southern unemployed or underemployed workers.

In his study of the differences between states in per capita incomes, Professor Frank A. Hanna has computed an index of the extent to which income in each state is sensitive to changes in the national total. For the years 1929–50 he found that the southern states as a group had a sensitivity index of slightly more than one. Specifically, that means that a change of 10 per cent in the per capita income of all states combined was likely to be accompanied by a change in the same direction of 10.22 per cent in the per capita incomes of the southern states. This means that southern incomes tend to be more volatile than the national figures by about 2 per cent. In addition to the variations which are explained by the sensitivity index, he found that in some states incomes had variations associated with time. In the southern states as a group these variations amounted to a positive rate of growth at the rate of 1.5 per cent per year, compounded annually. Only seven widely scattered non-southern states had positive rates of growth during this period.[3] Since only a small part of the increase in southern income is explained by the sensitivity index, a major part was due to other factors which had the effect of pushing up incomes at a significant rate.

An analysis of the changes in the sources of income payments can reveal significant indications as to the structural changes which have been taking place in the economy. In 1929 the major sources of southern income payments, in the order of their importance, were: trade and services; agriculture; manufacturing payrolls; and government. Between 1929 and 1950 income payments in current dollars increased by $30.1 billions. The proportions in which this increase came from the different sources are significant. Trade and services originated one fourth of the payments in 1929, contributed one fourth of the increase, and thus maintained its position without significant change in 1950. Manufacturing, by contributing one sixth of the increase, raised its position from 12.6 per cent of

[3] Frank A. Hanna, "Cyclical and Secular Changes in State Per Capita Incomes, 1929–50." (Unpublished manuscript) and special computations made by him.

the total in 1929 to 15.6 per cent in 1950. The large changes came in government and agriculture. Government was, by a wide margin, the lowest of the four major categories in 1929, accounting for only 8 per cent of payments. But it was responsible for 24.8 per cent of the increase and in 1950 it originated 19.9 per cent of all payments and was second only to trade and services. Agriculture accounted for 20 per cent of payments in 1929, but contributed only 9.4 per cent of the increase and thus fell to 12.6 per cent in 1950.[4]

This analysis of the increase in income payments between 1929 and 1950 reveals two striking developments. First, slightly more than half of the total increase came from the two categories, government and trade and services. Second, agriculture and manufacturing *combined* contributed only slightly more than *either* government *or* trade and services.

Payments from manufacturing increased moderately in importance during the period but that *increase* was not equal to the *decline* in payments from agriculture. As a result the two combined did not account for as large a proportion of all payments in 1950 (28 per cent) as they did in 1929 (33 per cent).

Until recent years agriculture dominated the southern economy. The data given above, however, indicate that in the past two decades agriculture has declined sharply in relative importance. Between 1929 and 1950, cash farm receipts more than trebled, but as a net source of income payments the industry declined in relative importance by more than one third. In 1930 approximately 43 per cent of all gainfully employed southern workers were engaged in agriculture. During the next two decades the number declined by some two and a quarter million, or about 40 per cent, so that in 1950 only 22 per cent of the employed labor force in the South was in agriculture. These are indeed vast changes for a 20-year period and indicate the speed with which the South is shifting away from agriculture. By contrast, in the non-South, while agricultural employment declined it was at a much lower rate than in the South and income payments from agriculture were as important in 1950 as they were in 1929.

Within southern agriculture there were also great changes. The greatest change was the drastic decline in the importance of the cotton crop; in 1929 it accounted for almost half (46 per cent) of all cash farm receipts. By 1950 the figure had declined to one fourth. The compensating increases were a 10-point rise in the receipts from livestock, a 5-point rise from tobacco, and smaller increases from feed grains, oil-bearing crops, and several other miscellaneous categories. The changes were accompanied, and in large measure made possible, by a very rapid increase during the 1940's in tractors and power-operated equipment. Between 1940 and 1950 the number of tractors in the South increased by almost 250 per cent, a rate of increase considerably more than twice the rate in the non-South. This indicates that the southern farmer is definitely shifting away from cotton with its enormous requirements of hand labor and toward livestock and the crops which can be cultivated more extensively and produced more largely with mechanical power.

[4] The data are from the annual reports on state income payments made by the National Income Division of the U. S. Department of Commerce and published in the *Survey of Current Business*.

Two of the most common and perhaps the most essential characteristics of economic growth are a declining dependence on agriculture and an increased mechanization of agricultural production. In those respects the South has certainly developed economically in the past two decades.

III

Industrialization is usually regarded as the most characteristic and perhaps the most essential element of economic growth. In manufacturing the South made substantial progress in the two decades under study, but not so much as is sometimes imagined. In 1930 approximately 12 per cent of all gainfully employed workers in the South were in manufacturing; by 1950 about 18 per cent of the employed labor force was so employed. The absolute increase was a little more than a million persons, or less than half of the number which left agriculture.

Because of the strategic position of manufacturing in the cyclical behavior of the economy, it is not accurate to evaluate its importance solely in terms of the number of people it employs or the payments it makes. Nevertheless it must be recognized that manufacturing has not been the most important factor in raising southern incomes in recent years. Earlier it was noted that manufacturing contributed only about one sixth of the total increase in income payments between 1929 and 1950. While it has surpassed agriculture as a source of income payments, manufacturing still lags well behind trade and services and government. The level of income payments in North Carolina is significant in this connection. In most respects North Carolina has been one of the most highly industrialized southern states for many years. Yet it has never been near the top in per capita income payments and in most years it has been below the average for the South as a whole.

Along with the expansion of southern industry, there has been a considerable shift in the industrial pattern. The outstanding development has been a sharp decline in the importance of textiles. Formerly this industry group had employed over a third of all industrial production workers in the region but by 1950 the figure had dropped to about 27 per cent. Of the other traditional southern industries, tobacco had declined slightly in rank, furniture had about held its own and lumber had increased slightly. All of these are industries which require comparatively little investment, are low in productivity, and pay relatively low wages. The increases have been scattered over a number of industry groups, including paper, chemicals, machinery, and transportation equipment. Generally these are industries which have heavy capital requirements, high productivity, and pay high wages.

Such changes as these might normally be expected as an area develops industrially. The first industries developed are those which perform the simpler and more elementary processes and which require comparatively little capital investment and little or no skill on the part of workers. But the demand for the products of such industries is comparatively inelastic as incomes rise. If industrialization continues the area must turn to the more intricate and complex industrial operations which require larger investment outlays and demand higher skills from the workers. The demand for the products of these industries is usually

much more elastic with respect to income and there is room for greater expansion as incomes rise. It would seem that the South is now in transition from the first and simplest stage of industrial development to the second and more complex stage.

IV

Measured by the volume of its monetary transactions, the government sector experienced a greater rate of increase than any other major sector of the economy during the two decades. Its importance as a source of income payments more than doubled during the period. Since a large part of the payments were transfer payments, the increase in employment was not correspondingly large. In fact, total government employment represented less than 10 per cent of the employed labor force in 1950.

A mere list of the various forms of payments involved here, many of which did not exist in 1930, will go far to explain the great increase which has taken place and also indicate the large proportion of transfer payments. In addition to salary payments to civilian and military personnel, these include interest on debts, public assistance and relief payments, social security benefits, family allowances and allotments to dependents of military personnel, mustering out and terminal leave payments, and many veterans' benefits including pensions and disability compensation, readjustment and self-employment allowances, cash subsistence allowances, bonuses, dividends on life insurance, and others. A large part of these payments came from the Federal Government which, between 1930 and 1950, expanded its expenditures by more than ten fold. Since the scale of federal salaries, allowances and benefits is uniform for the whole country, an increase in the disbursements for these purposes will produce a relative increase in incomes in low-income areas, assuming that the geographical distribution remains the same. Most of the payments listed above go to military personnel and veterans and their dependents. Hence it is evident that World War II was an important factor in raising federal payments in the South and thereby reducing the differential between southern and non-southern incomes.[5]

State governments also increased their expenditures greatly. In 1950 the expenditures of southern states were approximately six times as large as they were in 1929 and their expenditures for public welfare alone in 1950 were more than expenditures for all purposes in 1929. Highways and schools are the other major purposes of state expenditures and for each of them southern states spend a substantially larger proportion of their funds than do non-southern states. Local government expenditures have not increased greatly. During the 1930's they declined somewhat and it has been only since the end of World War II that they have grown rapidly. In constant dollars they were less in 1950 than in 1929.

[5] For example, Dr. H. G. Schaller found that in 1949, for the United States as a whole, veterans' transfer payments reduced the relative dispersion in income payments among the states by approximately 4 per cent. *The Effects of Transfer Payments on Differences in State Per Capita Incomes, 1929, 1939, and 1949.* (Unpublished doctoral dissertation in Duke University Library.)

In the government sector, then, there has been a very great increase of expenditures and a strong trend toward centralizing them in state and federal governments, especially the latter. Both the Great Depression and World War II accentuated these tendencies. Local expenditures, which have little effect on the level of incomes and no tendency to equalize them geographically, have declined sharply in relative importance and have even declined absolutely in constant dollars. On the other hand, federal expenditures which have had a great effect on raising the level of incomes through inflation and which also have a measurable tendency to equalize incomes geographically, have had an enormous expansion. This latter has been an important factor in raising per capita incomes in the South both absolutely and in relation to the rest of the country.

V

The trade and services sector of the southern economy has engaged from a fourth to a third of all employed workers. The proportion of income payments originating in this sector has, except in the war years, remained quite stable at around one fourth. Both employment and income figures would have shown a greater increase during the two decades had it not been for a decline of some 10 per cent in the workers engaged in domestic service. Except for agriculture, domestic service was the only major area of employment which showed an absolute decline during the period.

In absolute terms, employment in trade and service increased more between 1930 and 1950 than in any other major sector. Because of changes in Census definitions, the number cannot be determined exactly but it was probably near two million. In trade alone the increase was 1,365,000. As the population becomes more urbanized and receives higher incomes, it is easy to understand why this sector should grow. Such a population demands more filling stations, garages, repair shops for durable goods, beauty shops, eating places, theatres, laundries, and a host of similar establishments. Also, the steadily growing tourist trade of the region requires more hotels, motels, eating places, souvenir shops, and other similar places.

Trade and services are not usually regarded as a basic or dynamic sector of the economy in the same sense as agriculture or manufacturing. In economic terms, the activities represented here are tertiary activities. Yet in terms of the employment afforded and the income originated they occupy a large and significant place in the economy. Also, they are essential to the smooth functioning of an urbanized and industrialized society. Especially as more women enter the labor force and domestic servants become scarcer, commercialized services become more and more necessary to the operation of the industrial sector of the economy. In terms either of employment or income, they are, in the South, more important than either agriculture or manufacturing and not much below the total of both combined. Economically they are important for two other reasons. They afford employment for many workers who, for any one of various reasons, are not suitable for industrial employment. Second, since they are predominantly small-scale

and do not require heavy capital investments, they afford an outlet for those who want to be independent entrepreneurs and run their own businesses.

VI

The changes just mentioned had far-reaching effects upon the population of the region. To describe those changes adequately would require a volume such as that recently prepared and soon to be published by Professors Maclachlan and Floyd. Here only a few of the major changes can be mentioned.

The rate of population growth was accelerated by the depression and retarded by World War II. The birth rate fluctuated sharply during the two decades, but remained significantly above that of the non-South, while the death rate was progressively lowered. By 1950 the adjusted death rates for Whites and Negroes, taken separately, were only slightly higher than the corresponding rates in the non-South. These high birth rates and moderate death rates gave a large natural increase of population. During the 1930's, outward migration was sharply reduced and for the only decade in this century the South had a higher rate of population growth than the non-South. The enormous demand for labor arising out of the war caused a resumption of migration and some two and a half million people moved out to the North and West. In that decade the South's population grew at a rate slightly below that of the non-South. In both decades the outward migration was proportionately much greater among Negroes than among Whites.

Among the changes in the population, the most notable by far was, as the economic developments already discussed would suggest, a strong trend toward urbanization. In 1930 only a third of the southern population was urban; by 1950 the figure had risen to almost a half (47 per cent). Another fourth of the population was rural non-farm, which means that almost three fourths of the people are either urban or largely urban-oriented. During the two decades, urban population increased by 81 per cent, the rural non-farm by 46 per cent, while the rural farm population *declined* by 28 per cent. That is urbanization on a grand scale!

The sweeping population movements which are going on are causing a significant change in the racial composition of the southern population. This is shown most strikingly by an analysis at the margin; that is, by an analysis of the increase of population between 1930 and 1950. During that time the South's population rose by nearly eight million. For every increase of *one* in the Negro population the White population increased by *ten*. For the single decade from 1940 to 1950, the White population increased by *30* for every increase of *one* in the Negro population. Negroes constituted 26 per cent of the total southern population in 1930, but less than 23 per cent in 1950. This decline was caused very largely by the heavy outward migration of Negroes, which is shown on the other side by the fact that the Negro population of the non-South more than doubled during these two decades.

These and other striking demographic changes were the result of trends which have been going on in the South for a long time, and which were greatly accentuated in the 1940's. There can be no doubt that they represent great changes in

the population of the region. The significance of those changes and the extent to which they are causes or results of economic development invite more study and analysis by economists than they have received thus far.

VII

The outstanding and dominant changes in the southern economy during these two decades may be summarized as follows: the sharp decline in the importance of agriculture, the great increase in governmental payments, the relatively modern increase in manufacturing, and the continuing large role of trade and services. In total, this represents a very great shift away from primary economic activity, represented by agriculture and manufacturing, and toward tertiary activities, represented here by government and trade and services.[6] In 1930, agriculture and manufacturing accounted for about 54 per cent of all employment in the South; by 1950 the figure had declined to 40 per cent, which was only slightly above the total (37 per cent) for the three tertiary groups included here. As a source of income payments, the total for government, trade, and services was more than 50 per cent above the total for agriculture and manufacturing; 45 per cent compared to 28 per cent.

Is this rapid shift toward the tertiary activities a general characteristic of economic development or was the South's experience the result of special conditions? Colin Clark contends that there is a fairly well defined pattern here. In the earliest stages, as economies develop, primary production declines and secondary production increases in importance. As development continues, the total of primary and secondary production declines and tertiary activity increases rapidly in relative importance.[7]

This thesis has been questioned by a few and vigorously upheld by others.[8] To my mind, the weight of the evidence overwhelmingly supports Clark's thesis. Further, the thesis finds strong logical support in two considerations. First, as incomes rise our desire and demand for the tangible goods produced by the primary and secondary industries are relatively limited, in comparison with our demand for the vast range of services afforded by the tertiary activities. Second, our greatest technological progress has been made in the extracting and processing of physical goods. As these strides in productivity make it possible for fewer people, relatively, to meet our needs in those fields, more and more manpower will be available for use in the tertiary fields.

It would appear, also, that in this respect the South is repeating, with varia-

[6] Colin Clark defines tertiary activities to include all activities other than primary and secondary, "... the principal of which are distribution, transport, public administration, domestic service and all other activities producing a non-material output." *The Conditions of Economic Progress*, Second Edition, London, 1951, p. 401.

[7] *Ibid.*, Chapter VIII.

[8] P. T. Bauer and B. S. Yamey, "Economic Progress and Occupational Distribution," *The Economic Journal*, LXI (Dec., 1951), 741–755; A. G. B. Fisher, "A Note on Tertiary Production," *ibid.*, LXII (Dec., 1952), pp. 820–834; S. G. Triantis, "Economic Progress, Occupational Redistribution and International Terms of Trade." *Ibid.*, LXIII (Sept., 1953), pp. 627–637.

tions, the history of the United States as a whole. From 1930 to 1950 the decline of agriculture as a source of income payments in the South was an almost exact duplicate of its decline in the Nation as a whole during the *five* decades from the 1870's to the 1920's. On the other hand, the growth in the importance of manufacturing in the South during these two decades was very similar to its increase in the whole country during the *single decade* from the 1870's to the 1880's.[9] With respect to payments from government, the South was about at the same level as the country as a whole in the late 1920's but the South has now moved well beyond any level ever attained by the whole Nation. Thus the southern economy has experienced a more rapid decline in the importance of agriculture, a more rapid rise in the level of governmental payments, and a slower increase in manufacturing than was experienced by the national economy at comparable stages.

A much-used cliché of today sums up current economic changes in the United States in these words: "Cotton is moving West, cattle are moving East, Negroes are moving North, and Yankees are moving South." With respect to the past two decades we might give a one-sentence summary as follows: both absolutely and in comparison with the rest of the country the South has been growing whiter, richer, more industrialized, more urbanized, and more socialistic, interpreting the latter to mean that more of our income reaches us through the government. In all of these respects except the latter we are below the national averages but we are slowly approaching national norms. In that sense we are becoming more like the rest of the country. With respect to income payments from governments, we are well above the national average; we receive about one fifth of our income from that source compared with 15 per cent in the non-South.

VIII

There can be no doubt that major economic changes have occurred in the South in the past two decades, and that most of them have been in the direction of economic growth and development as those terms are usually understood. Perhaps it may be profitable to consider very briefly how these changes came about.

Before doing that, however, it should first be noted that some of the improvements were more nominal than real; that is, money income, even when expressed in dollars of constant purchasing power, increased more than real income. As we become more urbanized some forms of income which formerly were not in the money economy come to have a money value placed on them. The urban family, especially if the wife is working, pays a water bill instead of drawing water from a well, buys bread instead of baking it, sends its washing to a laundry, and buys processed rather than unprocessed foods. As J. M. Clark has stated it, economic growth

> . . . includes a good many expansions that are measures of impoverishment rather than enrichment. In modern urban life we work and pay for things that are free goods in a more primitive and rural setting; or we pay high for things that come cheap under simpler conditions.[10]

[9] Simon Kuznets, *National Income; A Summary of Findings*, New York, 1946, p. 40.
[10] Universities-National Bureau Committee on Economic Research, *op. cit.*, p. 24.

Just how much urban incomes should be adjusted to correct for this factor cannot be stated precisely but it is a matter of considerable significance. The adjustment would have to be somewhat greater in the South than in the rest of the country because in recent years the trend toward urbanization has been much stronger in this region.

A large part of our gains were undoubtedly made by making more efficient use of our labor force. In part this meant putting the unemployed to work but perhaps more important was the reduction of the vast amount of under-employment which has been almost a universal feature of southern agriculture. Although he may not work as many hours per day, the industrial worker undoubtedly works many more days per year than the farm worker. Another factor has been increased participation in the labor force, especially by women. In urban communities there is a tendency for more women to work outside the home. In this, also, we are becoming more like the rest of the Nation.

Another factor has been the shifting of workers from agriculture and domestic service into the more productive fields of manufacturing, trade and the services. This has required more power, more equipment, and more managerial ability or "know-how." These have been provided, in considerable measure, from outside the region. Investment funds have been provided in large amounts by the Federal Government, insurance companies, and by the large national companies which have built branches in the South. Without those funds, the South's growth would have been much less than it was. It is true that part of the funds supplied in these ways came originally from the South but they were heavily augmented by funds from other regions.

In the same way, much of the southern development has been made possible by research and technological developments carried on outside the region. The branch plants of national companies recently established in the South have full access to all the engineering, chemical, and personnel techniques developed by those companies and perhaps a nucleus of key personnel. Since the plants are largely new, they may embody more efficient lay-out and organizations than those prevailing in the older plants in other parts of the country.

IX

The factors discussed above show in part *how* the changes and developments were brought about; they give little indication as to the *cause* of the changes. Why did this relative development of the South occur and why did it come in these two decades rather than 40 or 50 years earlier? Even if time permitted, I would not be inclined to embark upon a consideration of the complex question as to why some economies grow and expand while others remain static or decline. That would carry us far into the fields of social psychology, sociology, philosophy, and political systems. Rather, I shall merely list, with the briefest explanations, some of the factors which may have had a part in bringing about these changes.

Perhaps the most important factor was World War II with its enormous demand for labor, of which the South had an abundance. It is difficult to imagine any other event which could have utilized the South's labor so fully in such a short period of time. The postwar boom and the Korean fighting have kept the

demand for labor high but, even so, the South has been able to do little better than hold its own, relatively, since 1945.

Another factor was the policies of the New Deal in encouraging high wages. Still another factor was the congestion in the large industrial centers and the movement to decentralize for both industrial and security reasons.

The above are factors which had their origins largely outside the region. Were there also factors *inside* the South which helped to facilitate these changes? To what extent did the impetus for change come from within the region? The South had several elements to offer. As already noted, it had an abundance of labor. As experience has shown, that labor is adaptable and can be readily trained for efficient industrial work. Further, it had large resources in coal, oil, timber, and water. Developments of the past two decades have greatly increased the importance of these items as industrial raw materials.

Beyond these physical factors, the South at this time had a population which was receptive to economic development and capable of facilitating it. Large segments of the southern population were sufficiently educated to take their place in an urban and industrial economy. In terms of the formulation presented by Rostow[11] the people of the South had some of the six propensities necessary for the encouragement of economic development, and to compensate for those which were weak or inadequate, the region was favored by external conditions which went far to offset the deficiencies. There were three such deficiencies; the South did not have in the proper degree the propensity to develop fundamental science, the propensity to restrict comsumption enough to develop the savings necessary to finance development, and the propensity to restrict the birth rate in order to prevent over-population. In regard to the first two, the South was fortunate in being able to import from the rest of the country the results of scientific advances and much of the capital needed to finance development. To offset the high southern birth rate we have been able to export to other parts of the country millions of migrants and thus achieve a more favorable ratio of men to land and capital.

The other propensities mentioned by Rostow are the propensities to apply science to economic ends, to accept innovations, and to seek material advance. These the South has had in adequate measure. Partly because of developments in education, transportation, and communication, the South has come more and more to accept the ideas and values of the rest of the United States which give high priority to "progress" and tend to identify change with progress, especially when the change is based upon scientific principles. Also, as a people we have developed a stronger demand for the conveniences and gadgets of an industrialized, urbanized society and that has raised our propensity to seek material advance.

In this connection the importance of outward migration in achieving a workable population adjustment should not be overlooked. During this period the South had a net loss of over three million people through migration. If those people had not been able and willing to move out, the region's growth would

[11] W. W. Rostow, *The Process of Economic Growth*, New York, 1952, pp. 13-14.

almost certainly have been different from what it actually was and might well have been reduced in amount. Their willingness to accept innovations meant the willingness to accept a home outside the region but perhaps they thereby contributed to the region's growth. This is not to say that they could not have contributed to that growth if they had stayed here provided there had been sufficient capital and entrepreneurship to use their labor efficiently. But those elements were not present in sufficient quantities to use efficiently all the available labor in the South during these two decades.

X

The pattern of the economic development which has occurred in the South is only one of an almost infinite number of possible patterns of economic growth. Further, the South is vastly different from most of the under-developed countries of the world. Yet there may be some guidance here for those who would plan and guide the economic growth of such countries.

For example, a large part of the South's growth was financed by direct investments in the form of branch plants established by companies in this country. There were no tariff barriers, no exchange controls, and few differences in language, customs, or laws. How much more difficult would the problem have been if it had been necessary to hurdle those barriers or to raise the capital indigenously? Also, the branch plants have full access to the techniques and personnel of the parent companies. Independent companies in a foreign country could receive only a trickle of such help despite our best efforts to give technical aid.

Again, before there can be any substantial industrial or commercial development in a country, that country, unless it is willing to become dependent upon outside sources, must improve the efficiency of its agriculture to the point where a minority of its workers can provide the food and fiber for the whole population. In many parts of the world farming is so inefficient that from a half to three fourths of all workers are required to produce the necessary food and fiber. In such countries the first essential for economic development is the improvement of their agriculture. The South is not confronted with this problem for two reasons. First, while its agriculture is inefficient by some standards, yet it is efficient enough so that, if necessary, a small minority of the population could produce all necessary agricultural products. Second, the region is only part of a larger economy in which adequate food is available and can be obtained in exchange for our surpluses of cotton and tobacco without any problems of exchange.

It is doubtful if the level of education which prevailed in the South 40 or 50 years ago would have permitted the developments of the past two decades. Yet our level of half a century ago was far higher than prevails in many of the backward countries today. This is a major hurdle which can be eliminated only over a long period of time.

Perhaps one of the most important factors which determines the ability of a people to progress economically is a great complex of characteristics, closely related to their ultimate scale of values, composed of such things as their willingness to accept change, their birth rate, their religion, and their mobility. These

are intangible elements, deeply rooted in the history of the race, slow to change, and difficult to manipulate. Whether for good or for ill, we in the South have come to accept fairly completely the scale of values of the rest of the country. We want and will work for the luxuries, the conveniences, and the gadgets of our modern American industrial society. Many of us are willing to give up the freedom and independence of agricultural life for the discipline and routine of an industrial job. Most of us are willing to accept the idea of change even if, indeed, some of us do not at times want change for its own sake. Large elements of the population are willing to pull up stakes and move if pastures elsewhere appear greener, even though they be beyond the Mason-Dixon Line. If the latter should be the case, there are no immigration quotas to restrain them.

In many parts of the world, however, these conditions do not prevail. Many peoples would like very much to have the attractive goods and the high incomes which our industrial system produces but often they do not realize that if they are to have an economic system capable of producing these things there is a price to be paid in the form of far-reaching economic, social, political, and even religious adjustments. If and when they do realize that, many of them may be unable or unwilling to pay the price. For example, many countries have a far more acute problem of overpopulation than the South has ever had, yet some of them are unable or unwilling either to restrict the growth of that population by birth control or to export any part of the existing surplus of manpower. Until they are able and willing to make the necessary adjustments we should not expect great results from economic and technical aid supplied from the outside and we should not attempt to oversell them on our way of life.

Economic growth is the result of an intricate adjustment of a great many complex factors, many of them intangible and elusive. There are many possible combinations which will produce varying degrees of economic development but all of them require factors which cannot be manipulated easily or quickly. Economic growth is not an immutable process, beyond the power of man to guide or direct but neither can it be achieved on an assembly-line basis according to a precise time schedule.

DEBT MANAGEMENT AND FEDERAL RESERVE CREDIT POLICY SINCE 1945*

C. H. DONOVAN

University of Florida

I

"In time of war and during the early period after a war, a central banking authority as a practical matter is unable to act independently of the Treasury."[1] Although these words of Dr. Goldenweiser were written in the course of an appraisal of Federal Reserve action in 1919–1920, they are just as applicable to the post-World War II period under review in this paper. Equally important as a practical matter in the light of this recent experience is the question how long a period of time must elapse before this independence of the central bank can again be exercised.

A brief review of the evolution of Federal Reserve policy and its relations to the national debt seems in order as a setting for discussing the post-war problems.[2] Prior to the 1930's the member banks rarely had sizeable excess reserves, so that the rediscounting process together with other available tools gave the Federal Reserve authorities sufficient leverage to influence the volume of money and credit. Furthermore, the operation of the international gold standard was considered by many to obviate the need for any substantial central bank interference with the volume of credit extended by the commercial banks. Adoption of an "easy money" policy, abandonment of the gold standard, and the heavy gold inflows of the thirties changed this situation drastically. The sharp debates in and out of Congress over the terms of the Banking Act of 1935 reflected the influence of these and other changes in our economy on the increasing role of the central banking authority.

As the policy of deficit financing was continued through the decade, the consequent growth in the federal debt took place mainly in the form of bonds. In fact the volume of short-term government securities, especially bills and notes, declined over the six-year period before Pearl Harbor while the national debt

* This article is based upon a paper read at the annual meeting of the Southern Economic Association, November 14, 1952. It does not include a review of significant changes in policy since that date.

[1] E. A. Goldenweiser, *Monetary Management* (New York, McGraw-Hill Book Co., 1949), p. 48.

[2] For a more complete discussion see for example, E. A. Goldenweiser, *op. cit.*, chaps. III and IV; Marriner S. Eccles, *Beckoning Frontiers* (New York, Alfred A. Knopf, 1951), Pts. V. and VI; *Annual Reports* of the Board of Governors of the Federal Reserve System; Secretary of the Treasury, *Annual Reports;* G. L. Bach, *Federal Reserve Policy-Making* (New York, Alfred A. Knopf, 1950), esp. chaps. III, IV, IX; Lester V. Chandler, "Federal Reserve Policy and the Federal Debt", *American Economic Review*, XXXIX, No. 2, Mar. 1949, pp. 405–429; Henry C. Murphy, *The National Debt in War and Transition* (New York, McGraw-Hill Book Co., 1950).

increased to nearly fifty billion dollars. Holdings of government bonds by the banks increased sharply as interest rates declined to record low levels, with the rates on short-term Treasury bills close to zero. During this period the Federal Reserve System accepted the responsibility for maintaining orderly conditions in the market for United States securities. In the teeth of the sharp recession during the early spring months of 1937 and again with the outbreak of the war in Europe in September, 1939, the Federal Reserve System made heavy purchases of long term governments in furtherance of its flexible portfolio policy. These purchases were undertaken, however, to protect the member banks in adjusting their cash position rather than to guarantee the yields on such securities.[3]

During the war period the policies of the Federal Reserve System were adjusted to help in meeting the country's war requirements and in controlling inflation. In addition to maintaining orderly conditions in the government securities market, the system undertook to assure an adequate supply of funds to finance the war effort insofar as these needs were not met out of current taxation plus the sale of securities to non-bank investors. On December 8, 1941, the Board of Governors announced that:

> The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements.
> Continuing the policy which was announced following the outbreak of war in Europe, Reserve banks stand ready to advance funds on United States Government securities at par to all banks.[4]

The promise implicit in the above statement was fulfilled. Whatever other shortages of manpower or materials may have impeded our war effort, there was never a shortage of money. In the process the national debt went up to two hundred and seventy-nine billion dollars at the peak in February, 1946. At the same time the bank-held portion of this debt increased from forty per cent in 1939 to forty-one and a half per cent in 1946.

Another objective of Federal Reserve credit policy during the war period was to maintain, in close collaboration with the Treasury, a pattern of interest rates on government securities. After the reconciliation of the somewhat conflicting views of Treasury and Federal Reserve representatives,[5] it was decided to keep in effect for the duration of the war a fixed pattern of short- and long-term rates. The result was the well-known $2\frac{1}{2}$ per cent on long-term bonds, $\frac{7}{8}$ per cent on certificates of indebtedness, and $\frac{3}{8}$ per cent on treasury bills. Maintenance of this stable structure of interest rates kept the interest cost of the war down and served to encourage more prompt investment by those investors who might otherwise have been inclined to wait for a rise in rates.

[3] See *Annual Report* of the Board of Governors, 1937, p. 7, and *ibid.*, 1939, p. 5.

[4] *Ibid.*, 1941, p. 1.

[5] For an enlightening description of these decisions by one of the staff participants see H. C. Murphy, *op. cit.*, Pt. II on "Setting the Pattern of War Finance."

II

The situation that confronted us at the end of the war with regard to the handling of the national debt was fraught with many pitfalls. The two hundred and seventy-nine billion dollar debt called for annual interest payments over five billion dollars, even at the prevailing low rates. With approximately one-third of this huge debt in short-term obligations the Treasury was confronted almost continuously with the necessity of borrowing anew in the market, wholly apart from the current budgetary condition which was not immediately favorable. The inflationary potential through monetization of debt was a constant menace since forty per cent of the total debt was held by the banking system. To make matters worse the practice of playing the pattern of rates increased considerably in 1945 and early 1946. These conditions resulted in such a rise in bond prices that market yields declined to slightly over two per cent even on long term restricted bonds. Short-term securities were left largely to the Federal Reserve Banks, thus forming a basis for pyramiding bank reserves and credit expansion.

When Congress passed the Employment Act of 1946, this act became a basic policy directive bearing upon the economic objectives of the Treasury, the Federal Reserve, and other federal agencies. In essence this act declared it to be the continuing policy and responsibility of the Federal Government to use all practicable means to create and maintain maximum employment, production, and purchasing power. While stability of prices was not specifically stated as one of the goals in the act, the use of general credit controls to curb inflationary tendencies in the economy was certainly envisaged.

Both the Treasury and the Federal Reserve authorities recognized their grave responsibilities in meeting these and other post-war adjustments to the peacetime economy. The emphasis that each agency placed upon specific areas of adjustment differed widely, however. The cautious attitude of the Treasury was based upon awareness of the dislocating effects on the nation's economy following the shift from full war production to peacetime conditions and fear of the consequences of the widely predicted post-war business depression. The Treasury authorities were guided by the following specific objectives:[6] 1) to maintain confidence in the credit of the United States Government, 2) to reduce the amount of the debt, and 3) to reduce bank ownership of federal securities and widen the distribution of the debt.

At the same time "the objective of Federal Reserve policy was to apply as much restraint to inflation as could be applied without occasioning or risking so sharp a decline in the market for Government securities as might disorganize the capital markets."[7] Stability in the Government bond market, with support from the central bank if necessary, was recognized by both parties as essential. There were,

[6] *Monetary, Credit, and Fiscal Policies*, A collection of Statements Submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government Officials, Bankers, Economists, and Others; Joint Committee on the Economic Report, 81st Congress, 1st Session (Washington, 1949), pp. 6-7.

[7] *Ibid.*, p. 25.

however, wide differences in the emphasis put upon these objectives and in the interpretation of the effects of specific steps to carry them out.

Conflicts soon developed over the Federal Reserve officials' proposals to abolish the preferential discount rate on short-term government securities and to raise the Treasury bill rate. Another proposal to require member banks to hold special reserves in addition to the regular reserves won even less support from the Treasury and from Congress. One major policy on which there was general agreement was the debt retirement program during the fiscal years, 1947–49.

From the end of 1947 to the end of 1949, the Treasury and Federal Reserve authorities worked together much more effectively in matters of debt management and credit policy than they had been able to do during the first two and a half years after World War II. In October, 1947, marked weakness developed in the bond market partly because of heavy sales of government securities by nonbank investors seeking other, more profitable outlets. Both the Treasury and the Federal Reserve system moved in to purchase long-term bonds in large amounts, with the latter acquiring on net balance some ten billion dollars of bonds during the buying period. No issue was allowed to go below par. Officials of the Treasury, the Board of Governors, and the Federal Reserve Banks on numerous occasions supported this market stabilization program.

Business uncertainty early in 1949 called for further adjustments in monetary and debt management policies. Short-term interest rates were lowered along with the relaxation of controls over reserves, consumer credit, and margin requirements. Maintaining "orderly conditions in the government security market" and the "confidence of investors in government bonds" were the announced goals of the Federal Open Market Committee after consultation with the Treasury. Later in 1949 and early in 1950 the improved business outlook led to action by the Federal Reserve to tighten controls once again by raising short-term interest rates and selling long-term bonds. The Treasury, cautious as usual, was reluctant to agree.

Two quite different views about the results of the policies and programs pursued by the Treasury and the Federal Reserve in the period from end of World War II to the Korean outbreak in June, 1950, are epitomized in the following quotations:

> Throughout the whole period up to Korea, the Federal Reserve and the Treasury worked very closely to achieve the right kind of debt-management program. From March 1, 1946—when the postwar debt repayment program was initiated—through June 30, 1950, the Government security holdings of commercial banks and Federal Reserve Banks were reduced by nearly $33 billion. The total amount of public debt outstanding was reduced by approximately $22½ billion, and non-bank holdings of the Federal debt (largely Government investment accounts) increased by over $10 billion during the same period.[8]

[8] From a statement of Secretary Snyder in *Monetary Policy and the Management of the Public Debt—Their Role in Achieving Price Stability and High Level Employment*. Replies to questions and other material for the use of the Sub-Committee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. (Cited hereafter as *Compendium*) 2 parts (Washington, D. C., GPO, 1952), Pt. I, p. 66.

The quantitative facts stated in the above quotation are of course true but nothing is said about the problem of exercising general credit controls. In view of even the short summary given above the reader can judge for himself the degree of harmony that prevailed. The Federal Reserve system view as expressed by the President of the Federal Reserve Bank of New York was somewhat different.

> As for the Federal Reserve System during the post-war years it had a harsh and thorough lesson in the difficulties of combining an effective credit policy with the maintenance of Government security prices, and a chastening experience with the problems of 'letting-go' once you have resorted to pegging a market. . . .[9] In the period since the end of the war in 1945 doubt and hesitation with respect to anything smacking of general credit restraint was raised to the level of a principle. What was done was usually too little and too late. Pegged prices of Government securities, which make purposeful credit policy impossible, were maintained too long . . . despite general agreement on objectives we followed a policy so cautious, so hesitant, so distrustful of general credit measures, and so little understood by the public that credit policy lost much of its effectiveness.[10]

III

The outbreak of the Korean conflict in June, 1950 cast the whole problem of debt management and credit control in a new light. Whatever disagreements there had been between the Treasury and the Federal Reserve in the previous five years seemed minor by comparison with those of the next few months. The Treasury took the position that maintenance of a strong government bond market was vital to assure successful financing of the rearmament program. Not unmindful of the inflationary threat the Secretary advocated increased taxes, cuts in non-defense expenditures, a program to promote greater savings from current incomes, as well as selective credit controls such as those on installment buying and real estate purchases.

The Federal Reserve authorities agreed that all these measures were necessary; indeed they accepted responsibility for administering selective credit controls and encouraging the savings bond program. But they also felt that general credit restraints were likewise necessary, if the inflationary boom was to be controlled. Such a program would have meant of necessity an increase in interest rates and the cost of new borrowing. The Treasury was opposed not only because it would increase the interest cost on the national debt, but also on the grounds that higher rates would hamper expansion in some defense industries and that the large volume of liquid assets made such attempts to control credit expansion futile anyway.

Differences between the two agencies came to a head rapidly in the first eight months after South Korea was invaded. In August the Board of Governors ap-

[9] From a speech by Allan Sproul before the fifty-fifth annual meeting of the Life Insurance Association of America, New York City, Dec. 12, 1951 and reprinted in *Monetary Policy and the Management of the Public Debt, Hearings* before the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report (Washington, D. C., GPO, 1952), p. 508. (Cited hereafter as *Hearings*.)

[10] *Ibid.*, pp. 515–519.

proved an increase in the discount rate from $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent and allowed short-term rates on outstanding issues of government securities to rise correspondingly. The Treasury had already announced plans to refund two issues of Treasury notes at $1\frac{1}{4}$ per cent. These conflicting actions resulted in what has been called "a significant financing failure for the Federal Government."[11] Heavy purchases were made by the Federal Reserve System and at the same time private investors turned in over two billion dollars of their holdings for redemption. At the time of the next refunding in November, a five-year Treasury note was offered at a higher rate on advice of the Federal Reserve authorities. The market response was somewhat better but again the Federal Reserve had to support the issue heavily. As a result of these operations the Open Market Account holdings of governments went up by two and one half billion dollars from August 21, 1950 to the end of that year. This is the basis of the charge that there was more debt monetization after the Korean outbreak than in the year and a half before that event.

Early in January, 1951, officials of the Federal Reserve System outlined to the Treasury a program which proposed further increases in interest rates, including those in the long-term field. After the Chairman of the Board of Governors and the Secretary of the Treasury were called to a conference by President Truman, Secretary Snyder announced in a speech to the New York Board of Trade that the $2\frac{1}{2}$ per cent rate on long-term bonds would be maintained. This provoked a wave of criticism among economists, financial writers,[12] bankers, and even some comment from officials of the Reserve system.

There followed in the next few weeks a series of events that even the most charitable observer, inclined to credit them to unfortunate misunderstandings by men of good will, must agree would furnish the critical student of governmental administration a whole sheaf of case exhibits. Less charitable critics might assay the events as an attempt by the Executive branch to gain complete control over the determination of central-bank credit policy.

The Federal Open Market Committee, even after a history making meeting with the President, did not agree to the policy laid down by the Secretary of the Treasury. However, the White House secretariat furnished the press a statement purporting to give the substance of this meeting, contrary to the understanding of the Federal Reserve participants and without prior clearance with any of them. In reaction against this tactic, Governor Eccles took unilateral action in releasing

[11] Statement by Secretary Snyder in *Compendium*, Pt. I, p. 70.

[12] One of these, Mr. Edward H. Collins, wrote as follows in the *New York Times*, January 22, 1951: "...Central banks in their general policies may from time to time make concessions to the temporary needs of the Exchequer, but when and if they do, they announce the fact themselves. In the opinion of this writer, last Thursday constituted the first occasion in history on which the head of the Exchequer of a great nation had either the effrontery or the ineptitude, or both, to deliver a public address in which he has so far usurped the function of the central bank as to tell the country what kind of monetary policy it was going to be subjected to. For the moment at least, the fact that the policy enunciated by Mr. Snyder was, as usual, thoroughly unsound and inflationary, was overshadowed by the historic dimensions of this impertinence."

a memorandum containing the committee's own, much different, version of the meeting. After this episode there was a series of conferences among these officials and the Congressional leaders concerned. Evidently the Secretary felt that agreement had been reached on a moratorium on any action until he had recovered from an operation. But the members of the Open Market Committee had no such belief and notified the Treasury that they were no longer willing to support the existing situation in the market for government securities, because inflationary pressures were again strong.

The confusion and uncertainty in the securities market that accompanied the above events was all too apparent. With a new period of extended deficit financing approaching as defense spending was stepped up and with extensive refunding operations to be carried out, a confident situation in the government security market was required. Both parties recognized the existing situation was unwholesome and intolerable. After extended discussions they agreed upon the well-publicized "accord."[13]

The immediate object of the Treasury was to restore conditions in the market that would facilitate the heavy refinancing and new borrowing it would soon have to face. The Federal Reserve was equally concerned to create an environment in which the inflationary boom could be curbed by clamping down on the monetization of the public debt. To achieve these ends each party had to make some compromises as the terms of the accord show.

In order to remove a substantial portion of the long-term bonds that were continually over-hanging the market and being offered for sale daily, the Treasury set up an offer to exchange these 1967-72 bonds for a non-marketable 2¾ per cent, twenty-nine-year bond. These new bonds were redeemable before maturity only by conversion into a five-year, marketable Treasury note. The purpose was to encourage holding of long-term bonds and thus minimize sales before maturity and consequent debt monetization.

In case there was any rush to sell long-term 'governments' after the terms of the exchange became public, the Federal Reserve stood ready to increase its purchases on the open market. The purpose was to retain an orderly market. The third specific agreement was that the Federal Reserve could discontinue purchases of short-term securities to cut down on debt monetization. The purpose was to recreate a situation where banks would have to borrow from the Federal Reserve to make adjustments in their reserves. It was expected the level of short-term rates would fluctuate around the rediscount rate. Finally, in the raising of new funds it was agreed that frequent conferences between the two agencies should be held so as to insure full collaboration.

[13] The following announcement was released jointly by the Secretary of the Treasury and the Chairman of the Board of Governors on March 4, 1951: "The Treasury and the Federal Reserve System have reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt." See *Annual Report* of the Board of Governors, 1951, p. 4.

IV

In evaluating the wisdom of the monetary and debt management policies pursued after the outbreak in Korea, we must keep in mind that we were striving toward several goals that were not always mutually compatible. It was important that the purchasing power of the dollar be maintained. It was likewise important that confidence in United States securities be maintained, in case it became necessary to finance a full-scale war. It was even more important that production be maintained and increased to meet the additional demands put upon the nation. In view of their history and special responsibilities, it is not surprising that various federal agencies stressed one as against the other of these objectives. The Federal Reserve authorities emphasized price stability, and the Treasury policy was directed toward preserving the government credit above all. While the Council of Economic Advisers continually stressed policies to promote high productivity, this frequently put them in the position of supporting an easy money policy.[14]

As mentioned above, the total gross direct debt was reduced by some twenty-seven and a half billion dollars in the thirty-eight months ending in April, 1949. In the ensuing forty-four months there was an increase of sixteen billion dollars with every prospect that the debt will continue to rise, at least through the fiscal year, 1953–54. Of course the size of the debt is the result of policies laid down by the Congress which are beyond the control of the agencies directly concerned with debt management.

There have been several significant changes in the composition of the debt since the end of World War II as shown in Table 1. The volume of Treasury bills decreased by about one-third when total debt was at the low point but by the end of 1952 was near an all time peak, nearly double the April, 1949 amount. The use of Treasury Notes has followed very much the same pattern, with even bigger changes in volume. Certificates of indebtedness were also retired in large volume after the war. These three types of indebtedness at the end of the war constituted some twenty-seven per cent of the total debt outstanding. Over thirty-four billion dollars was extinguished to leave only seventeen and a half per cent of the total debt in this form in early 1949. As a result of the borrowing in the past three years the proportion in these categories has risen to one-fourth of the total debt.

The management problems associated with this heavy volume of short-term debt did not lead to the refunding error of the Civil War Period.[15] Marketable Treasury bonds declined steadily in amount from one hundred and twenty-one billion in 1946 to slightly less than eighty billion dollars at the end of 1952, when they constituted only thirty per cent of the total debt. Part of this reduction resulted from the terms of the 1951 accord, but the new convertible issues account

[14] *Monetary Policy and the Management of the Public Debt.* Report of the Sub-Committee on General Credit Control and Debt Management of the Joint Committee on the Economic Report (Washington, D. C., GPO, 1952), pp. 24–25.

[15] For a stimulating analysis of this incident see Robert T. Patterson, "A Major Error in Refunding," *Journal of Finance*, VII, No. 3, Sept. 1952, pp. 421–433.

TABLE 1

Composition of the United States Government Debt, 1946 to 1952
(in millions of dollars)

	FEB. 28, 1946		APRIL 30, 1949		DEC. 31, 1952	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Marketable Securities						
Treasury Bills	17,032	6.09	11,542	4.59	21,713	8.12
Certificates of Indebtedness	41,413	14.08	28,710	11.41	16,712	6.25
Treasury notes	19,551	6.99	3,596	1.43	30,266	11.32
Treasury bonds	121,635	43.48	111,440	44.31	79,760	29.82
Other bonds	180	.06	162	.06	130	.05
Sub-Total	199,810	(71.42)	155,450	(61.80)	148,581	(55.56)
Non-Marketable Securities						
Tax & Treas. Savings Notes	8,043	2.88	4,488	1.78	5,770	2.16
U. S. Savings Bonds	48,692	17.40	56,019	22.27	57,940	21.66
Other Bonds	471	.17	1,720	.68	1,352	.51
Sub-Total	57,206	(20.45)	62,227	(24.73)	65,062	(24.33)
Convertible Issues	—	—	—	—	12,500	4.67
Special Issues	20,897	7.47	31,833	12.66	39,150	14.64
Total interest bearing debt	277,912	(99.34)	249,509	(99.19)	265,293	(99.20)
Non-interest-bearing debt	1,301	.47	2,021	.80		
Total Gross Direct Debt	279,213	(99.81)	251,530	(99.99)		
Guart'd Obligations	539	.19	19	.01		
Total Gross Debt	279,752	100.00	251,549	100.00	267,445	100.00

Source: *Federal Reserve Bulletin.*

for only an additional five per cent of the total debt. The continued emphasis on the savings bond program is reflected in a further increase in the amount of the debt held in this form, which has kept pace with the growth of the total debt. Special issues to meet the investment needs of various U. S. government agencies and trust funds constitute an ever-growing part of the total debt.

Holdings of government securities by the commercial banks declined nearly thirty per cent between February, 1946 and June, 1950, as the Treasury concentrated practically all its retirements in the short-term issues held primarily by these institutions. Since the Korean outbreak this same trend has continued at a slower pace, and the banks now hold less than one-fourth of the total debt as against one-third at the peak of indebtedness.

The Federal Reserve banks' holdings of government securities have fluctuated in response to the shifting policies described above. However, there was a net decrease of four and a half billion dollars down to June, 1950. In the next two and a half years their holdings were increased by over six billions. Over half of this increase ($3.5 billion) came about in the period from mid-August, 1950 to mid-

TABLE 2

Ownership of U. S. Government Securities

(in billions of dollars)

	February, 1946		June, 1950		Dec., 1952	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
Commercial banks	92.5	33.23	65.6	25.49	63.4	23.7
Federal Reserve banks	22.9	8.22	18.3	7.12	24.7	9.2
Sub-total	115.4	(41.45)	83.9	(32.61)	88.1	(32.9)
Individuals	63.7	22.86	67.2	26.11	64.2	24.0
Insurance Cos.	24.8	10.41	20.1	7.11	16.0	6.0
Mutual Savings Banks	11.1	3.98	11.6	4.51	9.5	3.6
Other corporations	29.0	10.41	18.3	7.11	21.0	7.9
State & local gov'ts	6.4	2.30	8.2	3.19	11.0	4.1
U. S. Government agencies & trust funds						
Special issues	20.9	7.50	32.4	12.57	39.2	14.6
Public issues	7.1	2.54	5.5	2.03	6.7	2.5
Other investors	1.4	.50	10.2	3.96	11.7	4.4
Total Gross Debt	279.8	100.00	257.4	100.00	267.4	100.0

Source: *Federal Reserve Bulletin.*

February, 1951, when the Federal Reserve system was under very heavy pressure to support the market. The commercial and Federal Reserve banks together at the end of 1952 owned about the same percentage of the government debt they held before we went into Korea.

Changes in the percentage of the total debt held by other investors are also shown in Table 2. Holdings by individuals, partnerships, and personal trusts are estimated to be only slightly above February, 1946, although there has been some shift toward savings bonds and away from other securities. Investments in "governments" by insurance companies and mutual savings banks have declined sharply since the end of the war, now accounting for less than ten per cent of the total debt.[16] Investments by both state and local governments and by various U. S. Government agencies have continued to increase and now account for twenty per cent of the total federal debt.

What has been the effect of these changes on prices, interest rates, and the money supply? Abandonment of the rigid support policy has resulted in a general rise in interest rates and bond yields. As a result, the market prices of various World War II federal bond issues have dropped well below par based upon their coupon rates. This experience has not been the catastrophic one that was feared

[16] For a discussion of the effect of recent changes on these institutional investors, see Norris O. Johnson, James J. O'Leary, and others, "Effects of Recent Credit and Debt Management Policies upon Financial Institutions," *Journal of Finance*, Vol. VII, No. 2, May, 1952, pp. 296–330.

TABLE 3

Net Changes in Bank Deposits and Currency

(June, 1950–Dec., 1952)

(in millions of dollars)

	JUNE 30 TO DEC. 31, 1950	DEC. 31, '50 TO JUNE 30, 1951	JUNE 30 TO DEC. 31, 1951	DEC. 31, '51 TO JUNE 30, 1952	JUNE 30 TO DEC. 31, '52
Demand deposits adjusted	+7,232	−3,312	+9,274	−3,480	+6,754
Currency outside banks	+213	+378	+527	+171	+1,020
Total net change	+7,445	−2,934	+9,801	−3,309	+7,774

Source: Compiled from *Federal Reserve Bulletin*.

by some of the participants in the debates during the battle of the pegs.[17] Nevertheless, at least one member of the Council of Economic Advisers saw this effort leading to results utterly perverse to good debt management.[18]

Bank credit expansion was certainly not checked with the ending of government bond price supports. Indeed the number of dollars available to the public in the form of adjusted demand deposits has continued to grow along with currency.

It is apparent from the above data that the expansion in the money supply in the last six months of 1951, after the accord was fully in effect, was considerably greater than it was in the same period of 1950. For the two calendar years the total expansion was $6.5 billion in 1950 and $6.8 billion in 1951. There are many factors involved to account for these changes but it is most important to remember that member banks reserves were allowed to increase. During the last half of 1951 the commercial banks and the Federal Reserve banks absorbed far more government securities ($4.0 billion) than were sold net by the Treasury in this period ($2.9 billion).

The effect of these changes in the money supply on price levels is not entirely clear if we are to judge by the record. Wholesale prices, which had risen rapidly and continuously except for a slight drop in 1949, rose over sixteen per cent from June, 1950 to February, 1951. Since then the index has shown no sharp changes but a slight downward movement. Consumer prices, which had followed wholesale prices on their upward climb from the end of 1946 to mid-1950, increased over eight per cent from June, 1950 to February, 1951. Moreover, this index con-

[17] In this connection the following statement by Pres. Sproul is pertinent: "The Government's credit does not depend on price fixing or price support in the Government security market. The Government's credit depends on the productive resources of the United States and its citizens, and on the ability and sagacity and integrity with which we manage our affairs. Faith in the credit of the Government is the basis for confidence in Government securities, and this faith and this confidence do not waver with changes in prices and yields of particular pieces of paper which reflect passing changes in the demand for and the supply of funds for investment." *Hearings*, p. 516.

[18] See "separate note by Mr. Clark upon Monetary and Credit policy" in *The Annual Economic Review*, a Report to the President by the Council of Economic Advisers. (Washington: Jan. 1952), pp. 142–144.

tinued to climb persistently throughout 1952 except for a slight slackening early in the year.

Any attempt to link these price changes directly to changes in the money supply immediately runs into several imponderable elements. The fluctuating importance of the velocity factor is one of these. This was apparent in the period of "scare buying" and speculation in the latter part of 1950. On the other hand, the abandonment of rigid bond price supports in 1951 coincided with the institution of direct controls over prices and the widening use of selective credit controls.

One final aspect that deserves attention in any appraisal of the results of the 1951 accord is the effect on the balance of power between the Treasury and the Federal Reserve System in these matters of debt and credit policy. Both Senator Douglas and President Sproul of the Federal Reserve Bank of New York stated during the investigation that they considered the re-dressing of this balance to be an important achievement of the accord reached in March, 1951.[19] This agreement brought to a close not only the war-enforced period of subservience of the Federal Reserve System to the Treasury, but also the long painful period of disagreement between the two agencies over the re-establishment of the primacy of the former in matters of credit policy.

During the course of the Patman subcommittee hearings the proposal was discussed that the control over debt management and credit policy should be unified by bringing the Federal Reserve System completely within the executive branch of the government. The political scientists appearing before the committee generally favored such unification under the Treasury on administrative grounds, while the bankers and economists were more generally opposed. This question had been previously discussed at the time of the "Hoover Commission" studies and Congress reacted by exempting the Federal Reserve from the reach of subsequent executive orders on reorganization. Under the circumstances the most that can be hoped for in this direction would appear to be implementation of the suggestion of the Douglas Committee for a general mandate by the Congress to the two agencies and the setting up of a National Monetary Authority as a coordinating group.

Closely related to the distribution of power and authority between these two arms of the Federal Government is the broader question of the proper balance between fiscal, i.e., expenditure, tax, and budget measures, and monetary-credit controls in promoting economic stabilization. The recent "revival of monetary policy" may well presage more serious attention to achieving better coordination among these various levers of action.

[19] *Hearings*, pp. 526 and 535.

CONSUMER EXPECTATIONS AND THE CONSUMPTION FUNCTION

LEO FISHMAN

West Virginia University

I

For some years the role of expectations has received scant attention in studies of the consumption function. Frequently these studies mention that expectations influence consumer expenditures; but, in general, that influence is disregarded in formulating a theory of the consumption function, and the theory developed takes into account only *ex post* factors and current income.

In theoretical analysis it is, of course, proper to disregard expectations in dealing with problems where they are of little or no importance. But since consumer expectations—especially expectations concerning future income, needs, the price level and the availability of goods and services—generally have a strong influence on consumer expenditures, the role of expectations must be carefully considered in formulating a satisfactory theory of the consumption function.[1]

The fact that expectations are important in determining consumer behavior has been clearly established by Professor George Katona and his colleagues at the Survey Research Center of the University of Michigan. On the basis of empirical research carried on by this group, Professor Katona states, "Expectations are attitudes which, like other attitudes, may shape behavior." On another page he writes, "Expectations may be of great significance even if what we expect does not come true, because they may affect our behavior at the time we hold them."[2]

The reason that consumer expectations have not thus far been accorded the serious consideration they deserve is probably two-fold. First of all, it must be remembered that much of the interest and most, if not all, of the recent theoretical work in the field of consumer expenditures dates from the publication of Keynes' *The General Theory of Employment, Interest and Money*.[3] Empirical and theoretical studies in this field were not only given considerable impetus by Keynes' work, but they were also given a basic theoretical underpinning which provided them with more significance and substance, and with closer ties to general economic theory than they had hitherto possessed.

[1] See Sections II and IV below for a more complete discussion of the type of consumer expectations which influence the level of consumer expenditures.

[2] George Katona, *Psychological Analysis of Economic Behavior* (New York, McGraw-Hill Book Co., 1951), pp. 52, 96. More specifically, the work of Katona and his colleagues has demonstrated that expectations have an important effect on consumer expenditures whenever consumers anticipate a change in personal income or the price level. Expectations of an increase in personal income or the price level lead to an increase in consumer expenditures, while expectations of a decrease in personal income or the price level lead to a decrease in consumer expenditures. *Ibid.*, pp. 140–142. See also Katona's article, "Effect of Income Changes on the Rate of Savings," *The Review of Economics and Statistics*, Vol. XXXI, No. 2 (May, 1949), p. 100.

[3] (New York, Harcourt, Brace and Co., 1935).

Keynes did not ignore expectations in developing "the general theory." Indeed, a good part of his explanation of what determines the level of economic activity at any time, and what accounts for changes in that level, is based on expectations. But Keynes concerned himself with the expectations of entrepreneurs only. In his discussion of the various factors influencing the propensity to consume he did mention consumer expectations—more specifically, consumer expectations of the relation between future income and present income—but he suggested that they may be ignored, since everyone in the population of a community is a consumer, and the expectations of those who are more optimistic at any time will be counter-balanced by the expectations of those who are more pessimistic.[4]

Secondly, it seems likely that the comparative neglect of consumer expectations in recent studies of consumption is due in part to the increasing emphasis placed on the use of statistical and mathematical tools in economic analysis, and the increasing preoccupation with the preparation of statistical forecasts both of consumer expenditures and of the general level of economic activity.[5] Both of these developments encourage analysts to presuppose the existence of a stable consumption function, or at least to think in terms of *ex post*, rather than *ex ante*, factors.

II

Interesting illustrations of the unwarranted neglect of expectations in analyses of consumption are to be found in the writings of James S. Duesenberry, Dorothy S. Brady and Rose D. Friedman, and James Tobin, where they discuss the well substantiated fact that, at equivalent levels of absolute income, Negro families spend less than white families.[6]

Professor Duesenberry develops the thesis that the level of a family's consumption is determined not by absolute income alone, but by the relation between family income and the income of other families in the same group. The lower a family's relative income the stronger the "demonstration effect" of other families, and consequently the higher relative expenditures are likely to be. According

[4] *Ibid.*, p. 95.

[5] These two reasons may actually be closely related. Professor Schumpeter has pointed out that the interest in econometrics was stimulated by Keynes although that was not his intention. "Keynes gave a lead and an impulse to that statistico-theoretical research which we call econometrics. This applies not only to the case of the consumption function." "Surely, the econometrician's methodological creed would prompt him to describe [the consumption function] as a generalization . . . from . . . statistical observation. To Keynes, however, it was not that at all. It was a Psychological Law." Joseph A. Schumpeter, "Keynes and Statistics," *The Review of Economic Statistics*, Vol. XXVIII, No. 4 (November, 1946), p. 195.

[6] James S. Duesenberry, *Income, Saving and the Theory of Consumer Behavior* (Cambridge, Mass., Harvard University Press, 1949), pp. 50–52; Dorothy S. Brady and Rose D. Friedman, "Savings and the Income Distribution," *Studies in Income and Wealth, Vol. Ten* (New York, National Bureau of Economic Research, 1947), pp. 262–265; James Tobin, "Relative Income, Absolute Income, and Saving," *Money, Trade and Economic Growth* (New York, The Macmillan Company, 1951), pp. 143–149.

to Professor Duesenberry, it is this thesis (sometimes referred to as the "relative income" hypothesis)[7] which accounts for the difference between consumption of Negro families and white families in the same absolute income class. The social climate of the Negro community differs from that of the white community in such a way that the "demonstration effect" for Negroes is not as strong as it is for whites. Like several of the other writers cited, Duesenberry recognizes that consumer expectations are among the factors which influence consumer expenditures, but he fails to take them into account in developing his thesis or in making his predictions.

Dorothy S. Brady and Rose D. Friedman offer a similar explanation for this characteristic difference between Negro consumption and white consumption. Professor Tobin, in his discussion of the matter, questions the validity of this explanation, and offers instead an hypothesis which he refers to as the "absolute income" hypothesis. According to Professor Tobin, Negro families spend less than white families with the same absolute income because the financial reserves of Negro families are generally lower.

While there is probably a good deal of merit in both the "relative income" and the "absolute income" hypotheses, particularly if they are considered jointly,[8] they are certainly not the only possible explanations for the difference between the consumption of Negro families and white families, nor does it seem likely that they are of primary importance.

The fact that Negroes in our society are subject to a larger measure of economic insecurity than whites accounts for an important difference in the psychology of the two races. Except during rare periods, Negroes—particularly where they are in competition with whites—are apt to be among the first to become unemployed and among the last to be rehired. The Negro is keenly aware of his more vulnerable status, and his preoccupation with insecurity and the fear of unemployment are apt to make him more cautious as a consumer and more frugal in his expenditures than might otherwise be expected.[9]

This is obviously a case where consumer expectations are of sufficient importance to merit serious consideration in consumption analysis. It may well be that consumer expectations are of strategic importance in determining the difference between the consumption of Negro families and white families.

[7] See, *e.g.*, Tobin, *op. cit.*, p. 136.

[8] Tobin recognizes that the relative income hypothesis may be compatible with the absolute income hypothesis but does not explore this possibility in his analysis. *Ibid.*, pp. 136f.

[9] In his classic study of the Negro in the American culture Gunnar Myrdal writes, "In comparable cases *Negroes almost always seem to be the more careful budgeters.*" *An American Dilemma* (New York, Harper and Bros., 1944), p. 368. (Italics in original.) With reference to the housing expenditures of Negroes Myrdal states, "The fact that the expenditures for housing are sometimes lower, in relation to income, in Negro than they are in white families may be due to the greater insecurity in Negro income." *Ibid.*, p. 1287. For statements relating to the insecurity of the Negro see Horace R. Cayton and St. Clair Drake, *Black Metropolis* (New York, Harcourt, Brace and Co., 1945), pp. 288, 582–583; and Robert C. Weaver, *Negro Labor* (New York, Harcourt, Brace and Co., 1946), pp. 31, 308–309, *et passim*.

Differences in expectations should help to explain not only the lower consumption of Negro families as compared with white families, but also the relatively lower consumption function of white share-croppers as compared with white farm operators, and of farm families as compared with nonfarm families.[10] Indeed, it seems likely that consumer expectations should be considered in all consumption studies involving particular segments of the population, especially in those which attempt to compare expenditure patterns of groups which differ from one another with respect to economic opportunity or occupation.

III

So far as the community as a whole is concerned, expectations are likely to be a significant determinant of consumption on any occasion when they do not average out in the manner suggested by Keynes. Keynes himself admits that in "abnormal" situations or when there is "extreme uncertainty concerning the future and what it may being forth" . . . "the propensity to consume may be sharply affected."[11] But he considered such situations so "abnormal" that, aside from referring to them in one brief paragraph, he did not take them into account in formulating his "general theory." Events of the past 15 or 20 years, however, make it amply clear that situations characterized by "extreme uncertainty concerning the future" recur so frequently that they cannot be labeled "abnormal," and disregarded in analyses of economic behavior.

Several writers have, in fact, conceded the validity of this argument, but have reasoned that there is, nevertheless, no need to take account of expectations concerning future income explicitly in analyzing the propensity to consume, since expectations are formed on the basis of events of the recent past, and implicit consideration is granted them in taking into account the recent past. Professor Angell, for example, writes ". . . the general level of anticipation . . . now ceases to be a necessarily separate factor. It is equivalent to, and can be replaced by, some summary expression for the recent history of income."[12] In similar vein, Dr. Lawrence Klein states ". . . the expected national income depends upon the most recently observed levels of national income (how else can expectations be formed?). . . ."[13]

This attitude is very appealing both because it possesses a certain air of reasonableness and credibility, and because it serves to facilitate analysis and prediction. Nevertheless, it is basically unsound and its acceptance has been responsible for substantial errors in analysis and prediction. It is true, of course, that the

[10] With one exception, these differences too are discussed by the aforementioned writers without reference to the role of expectations. Brady and Friedman do mention the significance of expectations in discussing the higher propensity of farm families to save than nonfarm families. See Brady and Friedman, *op. cit.*, p. 262.

[11] Keynes, *op. cit.*, p. 94.

[12] James W. Angell, *Investment and Business Cycles* (New York, McGraw-Hill Book Co., 1941), p. 85. This citation and the one that follows are also cited by George Katona, *Psychological Analysis of Economic Behavior*, p. 141.

[13] Lawrence R. Klein, *The Keynesian Revolution* (New York, The Macmillan Co., 1948), p. 63.

future emerges from conditions of the past and is formed by them. But the manner in which the past influences the future is seldom, if ever, as simple and direct as the statements by Professor Angell and Dr. Klein would indicate. Expectations of future income are frequently influenced by matters other than the most recently observed levels of national income. Hence no "summary expression for the recent history of income" can obviate the necessity of considering expectations of future income as a separate factor in predictions of consumption. Expectations of future income must be taken into account explicitly if the analysis is to be satisfactory.

IV

Although Keynes mentioned only consumer expectations of future income, it has become increasingly apparent in recent years that consumer expectations regarding matters other than income may also have a marked effect on the propensity to consume. From midyear 1950 to the end of 1951, for example, there were several unusual changes in consumption which were not caused solely by changes in income, or expectations of future income.

The prospects of a partial mobilization shortly after the outbreak of hostilities in Korea, according to the Department of Commerce, ". . . induced . . . a sustained drive by consumers—motivated by fear of subsequent shortages and of further price increases—to acquire many types of durable and semidurable goods."[14] As a result the rise in the consumption function was particularly marked during the third quarter of 1950, and, notwithstanding the subsequent decline, it remained well above "normal" for the remainder of the year.

Apparently the consumption function continued to decline during the first quarter of 1951, and then began to rise rather sharply. In discussing consumer expenditures for 1951 the Department of Commerce has noted that there was a "marked shift in the consumer propensity to save—from a postwar ratio of personal saving to disposable income of 4 per cent in the first quarter of the year to about 9 per cent in the last three quarters."[15] Several objective factors were, in the final analysis, largely responsible for this change. The amazing productivity of the United States economy made possible a further expansion in civilian production, despite the necessary increase in military production. Shortages in consumer goods which had been anticipated did not materialize. Inventories of some consumer goods began to accumulate, and the price level showed signs of weakening. These factors, however, were significant primarily because of their influence on consumer expectations. (Several additional developments which also help to account for the drop in consumption are not discussed here, since they had little or no effect on consumer expectations.)

Factors which influence consumer expectations may be classified into those which are recurrent and those which are non-recurrent. Most important among the recurrent factors are those associated with the business cycle. For example, if

[14] U. S. Department of Commerce, *Survey of Current Business*, February, 1951 (Washington, U. S. Government Printing Office), p. 5.

[15] *Ibid.*, February, 1952, p. 3.

a contraction in income leads to pessimism concerning the future among consumers—and it seems likely that it frequently does—then consumer expenditures will tend to decline more rapidly during at least a portion of the downswing of a business cycle than the actual change in income would lead us to expect. On the other hand, if an expansion in income leads to optimism concerning the future among consumers—and this appears equally likely—then consumer expenditures will tend to rise more rapidly during at least a portion of the upswing of a business cycle than the actual change in income would lead us to expect.

Several forecasters of the consumption function, such as Tom E. Davis, James S. Duesenberry and Franco Modigliani, deal with cyclical factors at some length.[16] But they fail to take into account the influence of cyclical factors on consumer expectations. Accordingly, these writers claim that consumer expenditures remain relatively high during the downswing, since consumers are reluctant to reduce their living standards below the peak level even when their income declines.

Such writers as Louis Bean, Daniel Hamberg, Joseph A. Schumpeter and W. S. Woytinsky, on the other hand, do claim that the consumption function tends to decline in the course of a business contraction, and to rise in the course of an expansion.[17] Unfortunately, however, these writers merely describe these cyclical changes in the consumption function without analyzing or even mentioning the important role of expectations.

V

Reference to earlier literature on the business cycle reveals that the relation between the business cycle and consumer expectations has not always been neglected. As early as 1922, Professor Frederick Lavington developed a theory of the business cycle in which expectations were of prime importance. While Lavington was particularly interested in the expectations of entrepreneurs much of what he wrote on the subject is also relevant to consumer expectations.[18]

In the early 1930's before the publication of Keynes' *The General Theory*, the Stockholm School of economics developed a comprehensive theory of changes in the level of economic activity in which consumer expectations played a strategic

[16] Tom E. Davis, "The Consumption Function as a Tool for Prediction," *The Review of Economics and Statistics*, Vol. XXXIV, No. 3 (August, 1952), pp. 270–277; Duesenberry, *op. cit.*, especially pp. 69–92; and Franco Modigliani, "Fluctuations in the Savings-Income Ratio: A Problem in Economic Forecasting," *Studies in Income and Wealth, Volume Eleven* (New York, National Bureau of Economic Research, 1949), pp. 369–443.

[17] Louis Bean, "Relation of Disposable Income and the Business Cycle to Expenditures," *The Review of Economic Statistics*, Vol. XXVIII, No. 4 (November, 1946), pp. 199–207; D. Hamberg, *Business Cycles* (New York, The Macmillan Co., 1951), p. 244 footnote 20; Joseph A. Schumpeter, *Business Cycles, Vol. II* (New York, McGraw-Hill Book Co., 1939), p. 550 footnote reference continued from page 549; W. S. Woytinsky, "Relationship Between Consumers' Expenditures, Savings, and Disposable Income", *The Review of Economic Statistics*, Vol. XXVIII, No. 1 (February, 1946), pp. 1–12.

[18] See Frederick Lavington, *The Trade Cycle* (Westminster, P. S. King and Staples Ltd., reprinted 1944), p. 55.

role.[19] Indeed, the emphasis on consumer expectations in this theory is one of the principal features distinguishing it from Keynes' theory. Professor Ohlin, one of the leading figures of the Stockholm School, has criticized Keynes' formulation of the determinants of the consumption function in the following terms: "To make the relation between consumption and last period's income the central thing in a *causal* analysis, which should explain why people act as they act, is to overlook that these actions are determined by expectations, which have only a loose connection with last period's realized income."[20] Ohlin also mentions that expectations of the price level and future needs are significant in this connection, but he does not discuss them at any length. Regarding expectations of income, however, he is careful to emphasize that it is income over a fairly long period of time in the future, rather than in the next period or any single period, that must be taken into account.

As in the case of Lavington, the work of the Stockholm School in the field of expectations was essentially of a theoretical, as distinguished from an empirical, character. Nevertheless, the theory was carefully developed and has not been materially improved upon to this day.[21]

VI

Whatever justification there may have been for the neglect of consumer expectations in the past, it is now apparent that the continued neglect of expectations has hampered the development of an adequate theory of the consumption function, and has furthered the development of a body of research and literature too narrowly conceived for the purpose it was intended to achieve. As a result, the various attempts made thus far to forecast consumer expenditures have failed.

From the very beginning forecasters of consumer expenditures assumed a stable consumption function, in the belief that people maintain their past behavior patterns in the future, and thus based their prognostications largely on the functional relation between consumption and one or more *ex post* variables.[22] To date, none of the forecasters has seriously considered the *ex ante* influence of consumer expectations. It seems highly likely that it is because of the neglect of this basic

[19] This paragraph is based on the account of the work of the Stockholm School in Bertil Ohlin, "Some Notes on the Stockholm Theory of Savings and Investment," *The Economic Journal*, Vol. XLVII (1937). This article has been republished in *Readings in Business Cycle Theory* (Philadelphia, The Blakiston Co.) 1944, pp. 87–130.

[20] *Ibid.*, pp. 62–63. (Italics in original.)

[21] While there has been other important theoretical work in the field of expectations, especially during recent years, this work has not been concerned with the relationship between consumer expectations and the consumption function. An outstanding example of such work is G. L. S. Shackle, *Expectations in Economics* (New York, Cambridge University Press, 1949), pp. x, 146.

[22] In the early forecasts of postwar levels of income, consumption was estimated on the basis of relatively simple relationships between consumer expenditures and income during a series of prewar years. See, *e.g.*, Everett E. Hagen assisted by Mrs. Nora Kirkpatrick, "Forecasting Gross National Product and Employment During the Transition Period," *Studies in Income and Wealth, Volume Ten* (New York, National Bureau of Economic Research, 1947), pp. 94–109.

factor that all the work done in this field has not yet produced an accurate forecast of the level of consumer expenditures or a satisfactory method for preparing such a forecast.[23]

Recognition of the deficiencies in theoretical and empirical studies in the field of consumption economics—as well as in the actual forecasts of consumer expenditures—which have resulted from the neglect of consumer expectations, is a necessary first step toward the removal of those deficiencies; but it is only a very small step in that direction. Actually a good deal of basic research will have to be carried out before the influence of consumer expectations on consumer expenditures can be adequately expressed in a series of meaningful and effective concepts or principles.[24]

In the meantime it should be recognized that, despite our inadequate understanding of consumer expectations, forecasts of consumer expenditures must take expectations into account. Under certain conditions, of course, expectations for the community as a whole may average out in the manner suggested by Keynes, and they may then be ignored. But such conditions occur quite infrequently.

In most cases, however, estimates of consumer expenditures based on *ex post* relationships should be considered provisional until they have been adjusted for the probable influence of consumer expectations. In some cases—for example, when war appears imminent, or an armistice appears to be fairly certain—more satisfactory results will probably be achieved if past relationships are ignored altogether and estimates of consumer expenditures are prepared on the basis of careful evaluations both of existing conditions and of the probable influence of expectations.[25]

Obviously estimates of the influence of consumer expectations must be based on the personal judgment of the forecaster and will, therefore, be subject to error. Recent experience, however, demonstrates that estimates of consumer expenditures based on *ex post* factors alone are almost always wrong, and it seems likely that the frequency and magnitude of these errors can be significantly reduced on the basis of shrewd estimates of the influence of consumer expectations. It is interesting to note that a number of forecasts of investment, made by methods which involved a consideration of entrepreneurial expectations, have been more accurate than the forecasts of consumer expenditures. As further research on the influence of consumer expectations progresses, the role of personal judgment will be smaller and the frequency and magnitude of errors in forecasts of consumer expenditures should be narrowed still further.

Such research will not only lay the foundation for a more comprehensive and

[23] For a recent statement of the errors involved in several of the forecasts of consumption discussed in this paper, see Davis, *op. cit.*, pp. 272–275.

[24] While useful empirical work is being carried on at the Survey Research Center, it is evident that efforts at research of this nature will have to be greatly intensified if our understanding of the influence of expectations on consumer demand under a wide variety of conditions is to be significantly advanced.

[25] For an illustration of this type of approach to the problem of forecasting the consumption function see Robert V. Rosa, "Use of the Consumption Function in Short Run Forecasting," *The Review of Economics and Statistics*, Vol. XXX, No. 2 (May, 1948), pp. 102–105.

realistic understanding of the propensity to consume, but should also furnish us with fresh insights into many other problems, such as the differences between consumer expenditures and investment, and their similarities. At present most economists make a sharp distinction between these two categories of expenditures, on the ground that the level of investment is influenced to a very considerable degree by expectations, while the level of consumer expenditures is not. Such research may also provide the basis for a new approach—or at least, a shift in emphasis—in the field of public policy.

CONGRESSIONAL ALTERATION OF THE EXECUTIVE BUDGET*

EDWIN MANSFIELD

Duke University

In view of the significance of Federal expenditures to the economy, it is important to learn something about those factors which influence the level of Federal appropriations.[1] One such factor is the nature of the process through which appropriations requests are channeled for appraisal, modification, and ratification. The level of Federal appropriations is influenced by the fact that significant alterations in appropriations requests are made more often at one stage of the process than at another, and by a particular group of officials at one stage of the process rather than by the same or a different group of officials at another stage. If, for example, all major revisions of appropriations requests were made by the Budget Bureau, one would expect a significantly different level of appropriations than if Congress made all the major revisions.

The budgetary and appropriations process may be divided into many stages but for present purposes it is broken into the executive stage and the legislative stage. In the executive stage, agencies present their appropriations requests to the Budget Bureau. These requests are examined by the Bureau and modifications are made in order that the over-all budget requests may conform to the general program of the Presesident. The President then submits his budget to Congress. The legislative stage occurs when Congress appraises and alters the executive budget. First the House and then the Senate considers the President's requests; finally the disparities between the House and Senate bills are eliminated in Conference Committees. The appropriation bill is then enacted by Congress.

In this paper, an attempt will be made to measure the extent to which alterations in appropriations requests occur in the legislative stage of the process. Moreover several possible explanations for the type of Congressional behavior which is indicated will be put forth.

I

Congress is vested by the Constitution with the ultimate authority over Federal expenditures. Therefore Congress is theoretically free to modify the executive's requests in any way it chooses. However evidence presented in Table 1 suggests that, although Congress has the power to alter or disregard the executive's requests for appropriations, in practice it seldom modifies substantially the executive budget.

* The author is indebted to Professors Hanna, Ratchford, and Walter of Duke University for their very helpful criticisms and suggestions.

[1] It must be noted of course that expenditures do not necessarily equal appropriations. However expenditures can only be made on the basis of and within the limits of the appropriations enacted by Congress.

In Table 1, the executive's requests are compared with the appropriations enacted by Congress. The annual appropriations granted by Congress are expressed as a percentage of the annual appropriations requested by the President.[2] Comparisons are made for (1) all executive departments other than the Post Office Department,[3] and (2) the legislature, the judiciary, and the District of Columbia. Individual comparisons are made for those independent offices whose appropriations are quite large.[4] A comparison is also made for the sum of the annual appropriations for the executive departments (other than the Post Office Department), the legislature, the judiciary, and the District of Columbia. Comparisons are made for two years during the properous twenties (1925 and 1929), two years during the Great Depression (1933 and 1935), one year of minor boom (1937), one year often referred to as relatively "normal" (1939), one war year (1945), and two post-war years (1950 and 1953).[5]

Table 1 indicates that in six of the nine years to which the data pertain, Con-

[2] Annual appropriations rather than total appropriations are used because included in total appropriations are deficiency and supplemental appropriations which are often granted to satisfy needs which are neither envisaged nor reflected in the executive budget. Were such deficiency or supplemental appropriations included, the total appropriations granted would not be comparable with the total appropriations requested. Unfortunately the effects of supplemental and deficiency appropriations cannot be completely eliminated by omitting them. The fact that such appropriations are available may affect the size of annual appropriations and the comparisons in Table 1. Annual appropriations are affected in this way if, for example, Congress cuts annual appropriations 5 per cent in order to show its "economy-mindedness" and at the same time intends to restore the cut by granting deficiency appropriations later in the year.

The effects of deficiency and supplemental appropriations upon the comparisons are mitigated however by the fact that these appropriations are very small relative to annual appropriations. In almost four-fifths of the cases considered in Table 1 (excluding the 1953 cases) deficiency and supplemental appropriations are 5 per cent or less of annual appropriations. Were that portion of deficiency and supplemental appropriations which properly should be classified as postponed annual appropriations included in the comparisons, it is doubtful that the results would differ markedly from Table 1. The general level of the comparisons would be raised somewhat, and comparisons for individual agencies might be altered substantially; but most likely the over-all pattern would still indicate that Congress makes only slight alterations in the executive budget.

[3] No comparison is made for the Post Office Department due to the fact that problems arise from the Department's revenue and deficit considerations which make the interpretation of such a comparison very difficult.

[4] No comparisons are made for the Maritime Commission and the Farm Credit Administration in 1939 because no separate figures for requests are given in the President's Budget or the pertinent House report. No comparison is made for Foreign Aid in 1953 because no request for annual appropriations is given in the President's Budget. Appropriations for the Executive Office are included with Other Independent Offices during the pre-war years; for the years after 1939 a separate comparison is made for the Executive Office. All omissions other than these in Table 1 are due to the fact that the particular agency did not exist in the years to which the data pertain.

[5] The years cited above are fiscal years. Appropriations for each of these fiscal years were enacted in the preceding calendar year.

TABLE 1

Annual Appropriations as a Percentage of Recommended Annual Appropriations
Selected Fiscal Years, 1925-1953

	1925	1929	1933	1935	1937	1939	1945	1950	1953
Total	99	101	94	103	94	99	98	100	91
Legislature	103	106	86	101	96[a]	100	98	84[a]	89
Judiciary[b]	—	—	—	—	—	—	93	98[a]	92
Federal Security Agency	—	—	—	—	—	—	95	99[a]	90[a]
General Services Administration	—	—	—	—	—	—	—	95	89
Federal Works Agency	—	—	—	—	—	—	87	—	—
Housing and Home Finance Agency	—	—	—	—	—	—	—	85[a]	79
Maritime Commission	—	—	—	—	—	—	100[a]	88[a]	—
Veterans Administration	—	—	95	99	94[c]	100[a]	100	99[a]	94[a]
Agriculture Adjustment Administration	—	—	—	—[d]	88	—	—	—	—
Farm Credit Administration	—	—	—	100	100	—	—	—	—
National Housing Agency	—	—	—	—	—	—	95	—	—
Executive Office							206	95	80
Other Independent Offices	100	100	86	205[a]	94[e]	101[a]	104	101	83[a]
Foreign Aid	—	—	—	—	—	—	—	97	—
Labor	119	103	89	100	85	100	97[a]	100[a]	93[a]
War	99	103	96	112	100	111	87	104	91
Navy	100	100	93	99	96	97	94[a]		
State	100	101	82	126	93	98	103	93[a]	68[a]
Treasury	99	101	93	100	97[f]	84	97	95	93
Agriculture	102	106	94	105	89	101	105	99	97[a]
Commerce	100	101	88	96	103	101	109	86[a]	83[a]
Interior	97	100	81	104[g]	78	103	153[h]	88	74[a]
Justice	100	100	85	92	94	97	99	100[a]	97[a]
District of Columbia[i]	103	100	94	100	88	100	100	100	92

Source: *The Budget of the United States Government*, U. S. Bureau of the Budget, for fiscal years 1925, 1929, 1933, 1935, 1937, 1939, 1945, 1950, 1953; *Digest of Appropriations*, U. S. Treasury Department, for same fiscal years as *The Budget*.

[a] The amount of the recommended annual appropriations is derived from the pertinent House of Representatives' report rather than the President's Budget.

[b] Included under Department of Justice, 1925–1939.

[c] Excludes recommendations and appropriations for Adjusted Service Certificate Fund.

[d] Included under Department of Agriculture.

[e] Excludes recommendations and appropriations for emergency conservation work.

[f] Excludes recommendations and appropriations for General Public Works.

[g] Annual appropriations exceed recommended annual appropriations because the former include appropriations for the Bureau of Mines whereas the latter do not.

[h] Annual appropriations exceed recommended annual appropriations because the former include appropriations for the War Relocation Authority whereas the latter do not.

[i] In 1925, 1929, and 1933, revenues from the District of Columbia are included in the comparisons; in later years, such revenues are excluded.

gress altered the executive's total requests[6] by 3 per cent or less. In the remaining three years, the executive's total requests were cut twice by 6 per cent and once by 9 per cent. For individual departments and agencies, the unweighted mean of the comparisons is 98 per cent; i.e., on the average Congress cut the executive's requests for individual departments and agencies by only 2 per cent. Moreover, there is no great dispersion about this mean of 98 per cent. In only about one-fourth of the cases did Congress alter the executive's request for an agency or department by more than 10 per cent.[7]

Two hypotheses are listed below which may account for a portion of the variation between years in the extent to which Congress alters the executive budget. Although Table 1 appears to support (or at least does not invalidate) these hypotheses, it must be borne in mind that the significance of the between-year variations shown in the data is limited by the small number of years considered and the omission of deficiency and supplemental appropriations.

1) It is often stated that the extent to which Congress alters the executive's budget is dependent upon the political party affiliations of Congress and the President. If both are of the same party, substantial alterations are less likely than if they are of different parties.[8] Table 1 provides some evidence supporting such a view. In two of the three years in which Congress altered the executive's requests by more than 3 per cent, Congress was in political opposition to the President. In 1932 (when appropriations were made for fiscal 1933), Congress was Democratic and the President was Republican. In 1952 (when appropriations were made for fiscal 1953), Congress was dominated by a coalition of Republicans and southern Democrats which often opposed President Truman. However, it is noteworthy than even when Congress and the President are in political opposition the executive's requests for annual appropriations are not altered drastically. The executive's requests for fiscal 1933 were cut by 6 per cent; the executive budget for fiscal 1953 was cut by 9 per cent.

2) It appears that the executive's requests are altered to a greater degree in presidential election years than in other years. On the average, Congress reduced the President's total requests for annual appropriations by 5 per cent during election years (1928, 1932, 1936, 1944, and 1952). In the other years (1924, 1934, 1938, and 1949), the average alterations of the President's requests was less than 1 per cent.

[6] Total requests as used above and subsequently mean the total requests for annual appropriations for the executive departments (other than the Post Office Department), the legislature, the judiciary, and the District of Columbia.

[7] Omitting three extreme values, the standard deviation of the distribution of comparisons in Table 1 equals 8 per cent. If such comparisons are normally distributed, we should expect that about two-thirds of the percentages lie between 90 per cent and 106 per cent.

[8] An example of this sort of statement is found in William Shultz, *American Public Finance*, Prentice-Hall, New York, 1942, p. 151. "In practice, the executive's proposals frequently carry no more weight than the political circumstances of the moment happen to lend them."

II

Although there are many reasons why Congress usually makes only slight alterations in the President's budget requests, the following three reasons are probably of foremost significance.

1) Congress often accepts the executive budget rather passively due to the fact that it lacks the time, interest, and knowledge which are needed to appraise the necessity for various appropriations. The fact that Congress lacks the necessary specialized knowledge and information is pointed out by Senator Douglas:

> Congress has the sole constitutional power to appropriate money. It should not abdicate this power. The budget document is a fine base to work from, and the staff of the Bureau can be helpful in furnishing information. But Congress needs to make up its own mind on the individual items, and it badly needs the information required to make intelligent decisions.[9]

Professor Guest writes as follows concerning the attitude of Congressmen towards appropriation bills:

> As mentioned before, members of legislative bodies are not as a rule interested in all of the details of a general appropriation bill. In a session of the United States Senate, Senator James C. Couzens of Michigan recently said, 'I think it is all folly to spend any time on appropriation bills, when whatever we cut out must be taken care of later in a deficiency bill.' Although not many members of Congress are as frank on the subject as Senator Couzens, they nevertheless appreciate his point of view.[10]

With regard to Congress's lack of time, ex-Congressman Luce states that "we simply have not the time to meet the expectations of the budgetary enthusiasts. Only by change do we know the facts behind the figures. We feel ourselves lost in the deluge of figures. It is hopeless."[11]

2) The executive branch of the government usually restricts its requests to that range of dollar amounts which it believes to be acceptable to Congress. The President, his aides, and various department heads and bureau chiefs, consult frequently with members of Congress to determine the latter's attitude towards programs involving future appropriations bills. When the executive group realizes that there is almost no possibility that a particular bill will be approved by Congress, it often cancels or modifies that request. Thus many of the compromises between the executive and legislative branches concerning expenditures are brought about before the executive budget is submitted to Congress.

In formulating the appropriations requests which are sent to Congress, the Budget Bureau is mindful of Congress's attitudes. "Although the Bureau has shown itself willing to incur hostility if necessary, it also acts in the light of congressional reaction; while its revisions are often consequential, they are not likely to raise questions of policy."[12]

[9] Paul H. Douglas, *Economy in the National Government*, University of Chicago Press, Chicago, 1952, p. 66.

[10] Harold W. Guest, *Public Expenditure*, G. P. Putnam's Sons, New York, 1927, p. 133.

[11] Robert Luce, *Congress*, Harvard University Press, Cambridge, 1926, pp. 79–80.

[12] Edward Banfield, "Congress and the Budget: a Planner's Criticism," *American Political Science Review*, XLIII, December 1949, p. 1220.

3) Lobbyists, members of the executive branch, and Congressmen often apply considerable pressure against congressional alteration of the President's budget. Since the revisions made by Congress ordinarily take the form of cuts, those groups which stand to gain from the appropriations or which consider the appropriations of vital importance to the nation, usually oppose the changes proposed by Congress.

In the case of private pressure groups, Senator Douglas describes the "pressure process" and evaluates its effectiveness as follows:

> Since the House acts first, the pressure groups are almost faced with the cut before they can operate. Therefore, they have historically treated the Senate as an appeal body, and they utilize their principal strength to exert pressure on that body. Their effectiveness is notable.[13]

Members of the executive branch of the Federal Government and interested Congressmen also attempt to prevent cuts being made in the executive budget. Members of the executive branch often appeal to the party loyalty,[14] etc. of Congressmen in order to prevent cuts which the former believe to be injurious to the President's program. Congressmen whose constituents' interest are promoted by a particular appropriations bill, also apply pressure against any reduction in that appropriation.

[13] Paul Douglas, *op. cit.*, p. 59.

[14] For a discussion of the pressure brought to bear upon Congressmen of the President's political party, *ibid.*, pp. 65–66.

UNION SHOP UNDER TAFT-HARTLEY

JEROME L. TONER, O.S.B.

St. Martin's College

The union-shop contract clause of the 1947 Taft-Hartley law is commonly thought to be detrimental to two hallowed principles of traditional liberalism in the American Free Enterprise system. It is assumed that the union-shop clause is contrary to the principle (1) that the law of supply and demand determines price and (2) that all men have the right to work without joining any union. Thus the majority of people are led to believe that the union-shop clause creates (1) a *monopoly* and (2) forces all employees under the contract to *join the union* within thirty days after employment.

In this article evidence will be presented to prove that the union-shop clause permitted by the Taft-Hartley law does not and cannot (1) create a *monopoly* nor does it (2) force any employee to *join any union*. The first proposition will be established by observing the nature of a monopoly and the collective-bargaining contract. The second proposition will be established, first, by observing (1) the pre-Taft-Hartley union-shop history and practices, (2) the language and interpretation of the Wagner Act by the National Labor Relations Board and the Courts, and (3) the Senate legislative history of the Taft-Hartley union-shop clause, all of which paradoxically require all employees under a union-shop contract to *join the union*. Nevertheless, secondly, it will be proved by the decision of the NLRB and the Courts in the Union Starch Company case that no employee under a union-shop contract is required to *join any union*.

MONOPOLY

The contention that the union-shop clause gives the union a monopoly can be valid, it seems to me, only under two conditions: First, if it gives the union control over the *supply* of labor; second, even without such control over the supply of labor, if it gives the union control over *wages*, *hours*, and *conditions* of *work* for all employees under the contract. A look at the record and the Taft-Hartley law demonstrates that it permits neither of these conditions.

Supply of Labor

The employer, having negotiated a collective-bargaining contract containing a legal union-shop clause under the Taft-Hartley law, is absolutely free to hire and fire employees as long as he does not thereby " . . . discriminate . . . encourage or discourage membership in any labor organization."[1] The closed-shop contract, legal under the Wagner Act, required that employees be union members at the time of hiring, but the Taft-Hartley law has outlawed the closed-shop contract. The union-shop contract, however, is sanctioned by the Taft-Hartley

[1] *Taft-Hartley Law, Pub. No.* 101, 80th Cong., 1st Sess. Ch. 120, sec. 8 (a) (3).

law for the very reason that it gives the union absolutely no control over the hiring of employees.[2]

Wages, Hours, and Conditions of Work

Furthermore, the monopoly control over wages, hours, and conditions of work does not and cannot come from the union-shop clause, which is only an insignificant part of the collective-bargaining contract. Such monopoly control comes *solely* and *exclusively* from the legal collective-bargaining contract, the *mutual* product and property of the employer and the union. The Taft-Hartley law specifically states that the "Representatives designated or selected for the purposes of collective bargaining by the majority of the employees in a unit appropriate for such purposes, *shall* be the *exclusive* representative of *all* the employees in such a unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment."[3]

The monopoly control of the collective-bargaining contract extends far beyond wages, hours, and conditions of work. It controls and proscribes a minority of the employees, be they union or nonunion, from taking any concerted action, such as picketing and strikes, for their own advantage. Under a collective-bargaining contract the individual or minority employees, in effect, surrender nearly all of their rights as employees as soon as the legal majority are recognized and certified to exercise the collective-bargaining monopoly over wages, hours, and conditions of work.

The monopoly charge made against the union-shop contract misleads the innocent and uninformed public into believing that *if* there were no union-shop contract the individual nonunion employee would be *free* to make an individual-employment contract covering wages, hours, and conditions of work mutually determined by the employer and himself. This assumption is based on a second misconception that every American worker has the constitutional right to sell his labor at any and all terms mutually satisfactory to an employer and himself. Both of these beliefs are part of the American myth that the individual worker has an inalienable right to work, where, when, and for what wages he can get and that it is "tyranny," "creeping and leaping socialism," "labor fascism," "communism" to deprive any worker of that right.

That American myth can *be true* only *when* and *if* there is no collective-bargaining contract. Once the legal majority of the employees decide to determine wages, hours, and conditions of work through lawful collective bargaining with their employer, the resulting collective-bargaining contract is endowed with and becomes an absolute monopoly over wages, hours, and conditions of work binding the employer and *all* present and future employees coming under the contract, whether they are union or nonunion employees. The collective-bargaining monopoly has absolutely no relation to or dependence upon the union-shop clause in the contract. The collective-bargaining monopoly would exist even when there is an open-shop collective-bargaining contract.

[2] 93 *Daily Cong. Rec.* 5089, May 9, 1947.
[3] Note 1. Sec. 9 (a). (Italics supplied.)

The Supreme Court of the United States has made it crystal clear that the monopoly power derives from the collective-bargaining agreement and not from the union-shop contract. It has said that "The very purpose of providing by statute for collective agreement is to supercede the terms of separate agreements of employees with the terms which reflect the strength and bargaining power and serve the welfare of the group. . . . The practice and philosophy of collective bargaining looks with suspicion on . . . individual advantages."[4] Emphatically the Supreme Court has said that "After the collective trade agreement is made, the individuals who shall benefit by it are identified by individual hirings . . . But the terms of the employment have been traded out. There is little left to the individual agreement except the act of hiring."[5]

Commenting on and confirming the collective-bargaining monopoly right of the majority of the employees to determine wages, hours, and conditions of work for *all* the *employees* under the agreement, a right which necessarily deprives individuals and minorities of their right to work at terms mutually satisfactory to them and their employer, the United States District Court said that "This (monopoly of the majority), to be sure, was an abridgment of the minority's fundamental rights, as well as those of the employer, but the importance of the broad public purposes sought to be served justified the means employed."[6] "The purpose of the act," said the Circuit Court of Appeals, "was *not to guarantee to employees the right to do as they pleased* but to guarantee to them the right of collective bargaining for the purposes of preserving industrial peace."[7]

The Supreme Court, in effect, makes the *collective-bargaining monopoly* a *duty* of the legally certified union, for it says that the union ". . . has the duty to protect equally the interests of the members of the craft (even those who are not members of the union) as the Constitution imposes upon the legislature the duty to give equal protection to the interests of those for whom it legislates."[8] Furthermore, the same Court has held that "Congress has seen fit to clothe the bargaining representative with powers comparable to those possessed by a legislative body to *create* and *restrict* the rights of those whom it represents."[9]

Defending the monopoly right of the collective-bargaining agreement against those who claim that it is a deprivation of liberty and property to interfere with the individual's inalienable constitutional right to sell his labor at his own terms, the Supreme Court admits and recognizes that " . . . it is urged that some of the employees may lose by the collective agreement, that an individual workman may have, or be capable of getting, better terms than those obtained by the group and that his freedom of contract must be respected on that account."[10] However, the Court gave categorical answer to that plea when it said that "The workman is free, if he values his own bargaining position more than that of the group, to

[4] *J. I. Case* v. *NLRB* 321 U. S. 332, 338, 1944.
[5] *Ibid.*, 335.
[6] *National Maritime Union of America* v. *Herzog*, 78 *F. Supp.*, 146, 155–6, 1948.
[7] *NLRB* v. *Draper Corporation* 145 *F.* (2d) 199, 203, 1944. (Italics supplied.)
[8] *Steele* v. *Louisville & Nashville Railroad Company* 323 U. S. 192, 202, 1944.
[9] *NLRB* v. *Draper Corporation* 145 F. (2d) 199, 203, 1944. (Italics supplied.)
[10] *J. I. Case* v. *NLRB* 321 U. S. 332, 338–9, 1944.

vote against representation; but the majority rules, and, if it collectivizes the employment bargain, individual advantages or favors will generally in practice go in as a contribution to the collective result."[11] The *union-shop contract*, it must be admitted, may and should strengthen the union in its legal duty to administer the collective-bargaining agreement, but the *monopoly* over (1) the *supply of labor* or (2) over *wages*, *hours*, and *conditions* of *work* does not and cannot come from the *union-shop clause* of the contract.

FORCES ALL EMPLOYEES TO JOIN THE UNION

The second charge against the union-shop contract is that it deprives an employee of his constitutional liberty, freedom, and right to work by forcing him to *join* the *union* lawfully representing the majority of the employees. This charge, logically based on the (1) pre-Taft-Hartley union-shop history and practices, (2) the language and interpretation of the Wagner Act by the NLRB and the Courts, and (3) the Senate legislative history of the Taft-Hartley Section 8 (a) (3) union-shop clause, is absolutely false. It is false because the NLRB, the Circuit Court of Appeals, and negatively the Supreme Court held, in the Union Starch Company case to be considered below, that employees *do not have to join the union* under a lawful union-shop contract.

Pre-Taft-Hartley Union-Shop History and Practices

The history and practices of union-shop contracts previous to the Taft-Hartley Act give inescapable and unchallenged evidence to the fact that a union-shop contract was one in which *all* the employees coming under the contract were *required*, as a condition of employment, to become and remain members of the union in good standing after some specified period of time, usually thirty or sixty days. Employment after the specified times was absolutely contingent upon good standing in the union. Loss of good standing in the union might come from denial, suspension, or expulsion from membership, with or without cause. The employer, upon notice of the employee's loss of good standing in the union, could be contractually compelled to discharge that employee. Previous to Taft-Hartley there were approximately three quarters of a million workers covered by union-shop contracts.[12]

Language and Interpretation of the Wagner Act

The wording and interpretation of the Wagner Act provided for compulsory union membership of both the union-shop and closed-shop type. Section 8 (3) of the Wagner Act declared "That nothing in this Act, . . . shall preclude an employer from making an agreement with a labor organization (not established, maintained, or assisted by any action defined in this Act as an unfair labor practice) to require as a condition of employment membership therein, if such a labor organization is the representative of the (majority of the employees)."[13]

The Senate Committee on Education and Labor, in its Report on the Wagner

[11] *Ibid.*
[12] 93 *Daily Cong. Rec.* 1896, Mar. 10, 1947.
[13] *Public*—No. 198—74th Cong. 1st Sess. on S. 1958, Sec. 8 (3).

Act, did not " . . . feel that it was the intent of Congress when it wrote section 7(a) of (NIRA) to illegalize the closed shop . . . and it is not the intent of Congress today."[14] The Report also said that " . . . nothing in this bill . . . shall be held to prevent the making of closed-shop agreements between employers and employees. In other words, the bill does nothing to facilitate closed-shop agreements or to make them legal in any State where they may be illegal; it does not interfere with the *status quo* of this debatable subject, but leaves the way open to such agreements as might now legally be consummated. . . ."[15] *A fortiori,* the Committee provided for the union shop.

The National Labor Relations Board generally held that an employer could require membership in a labor organization as a condition of employment if such " . . . an agreement (was) with an unassisted labor organization having a majority in an appropriate unit at the time of the execution of the agreement."[16] The Board gave effect to such compulsory-union-membership contracts whether written[17] or oral.[18]

Beginning, however, with the Rutland Court Owners cases[19] the Board limited the compulsory-union-membership contract by maintaining that " . . . an employer is not permitted to discharge employees pursuant to a closed-shop contract, even though the contract is valid under the proviso to Sect. 8(3), when, to the employer's knowledge, the discharge is requested by the union for the purpose of eliminating employees to seek a redetermination of representatives."[20] The Board was upheld in this decision by the Second,[21] Third,[22] and Ninth[23] Circuit Courts of Appeals and reversed by the Seventh Circuit Court.[24]

The Supreme Court of United States upheld the strict compulsory-union-membership contract and reversed the Board's Rutland Court Owners decision. Justice Brandeis, who declared in 1910 that the " . . . American people should not, and will not accept unionism if it involves the closed shop (for) they will not consent to the exchange of tyranny of the employer for the tyranny of the employees,"[25] recognized the error of that youthful prophecy when he upheld the closed shop in the 1937 Senn case. There Justice Brandeis, speaking for the Court, held that compulsory union membership of a closed-shop contract, which would deprive Senn of " . . . the right to work in his business with his own

[14] *Senate Report No.* 573, 74th Cong. 1st Sess. on S. 1958, p. 11.
[15] *Ibid.*, pp. 11, 12.
[16] *NLRB, Fourth Annual Report,* p. 64.
[17] *In re Aeolian-American Corp.* 8 *NLRB* 1043.
[18] *In re United Fruit Co.* 8 *NLRB* 404.
[19] *Rutland Court Owners,* 44 *NLRB* 587, Sept 29, 1942; 46 *NLRB* 1040, Jan. 13, 1943.
[20] *Colgate-Palmolive-Peet Co.* v. *NLRB,* 338 U. S. 355; 70 S. Ct. 166, 168, Dec. 5, 1949.
[21] *NLRB* v. *Geraldine Co.*, 173 F. (2d) 14, Mar. 15, 1949; *Colonie Fiber Co.* v. *NLRB* 163 F. (2d) 65, June 14, 1947; *NLRB* v. *American White Cross Lab.* 160 F. (2d) 75, Feb. 19, 1947.
[22] *NLRB* v. *Public Service Transport Co.* 177 F. (2d) 119, Sept. 6, 1949.
[23] *NLRB* v. *Colgate-Palmolive-Peet Co.* 171 F. (2d) 956; *Local* 2880 v. *NLRB* 158 F. (2d) 365, Nov. 22, 1946.
[24] *Aluminum Company of America* v. *NLRB* 159 F. (2d) 523, Dec. 28, 1946; *United Garment Workers of America* v. *NLRB* 21 LRRM 2093, Nov. 3, 1947.
[25] *A. F. L.* v. *American Sash Co.* 335 U. S. 538, 551.

hands"[26] did not deprive "... Senn of liberty or property or deny him equal protection of laws in violation of the Fourteenth Amendment"[27] because "The end sought by the union (compulsory union membership of the closed-shop type) is not unconstitutional."[28]

Supporting the compulsory union membership of Brandeis' Senn opinion and reversing the Board's Rutland Court Owners decision the Supreme Court declared that "One of the oldest techniques in the art of collective bargaining is the closed shop. It protects the integrity of the union and provides stability to labor relations. To achieve stability of labor relations was the primary objective of Congress in enacting the National Labor Relations Act. Congress knew that a closed shop (or the union shop) would interfere with freedom of employees to organize in another union and would, if used, lead inevitably to discrimination in tenure of employment. Nevertheless, with full realization that there was a limitation by proviso 8(3) upon the freedom of Section 7, Congress inserted the (compulsory-union-membership) proviso of Section 8 (3)."[29] The same logic would compel the Court to sustain the compulsory union membership of the union-shop contract provided for in Section 8(a) (3) of the Taft-Hartley law.

Senate Legislative History of T-H Union-Shop Clause

With the above historical, Wagner Act, NLRB, and Court protection of the right of the employer and the majority of his employees, through their union, to enter into collective-bargaining contracts requiring good standing in the union as a condition of employment *before* starting to work in the case of a closed-shop contract and *after* a specified period of time of employment, usually thirty or sixty-days, in the case of a union-shop contract, the Taft-Hartley compulsory-union-shop contract was born. After 2424 pages of testimony before the Senate Committee on Labor and Public Welfare, which was equally divided *for* and *against* compulsory union membership of the closed-shop and union-shop contract, the Committee reached "... a solution of the problem which (it says) does *justice* to *both points of view*."[30]

The first point of the Senate Committee's interpretation of *justice* concerning compulsory-union-membership states that:

> We have felt that on the record before us the *abuses* of the system have become too serious and numerous to justify permitting present law to remain unchanged. It is clear that the *closed shop* which requires *preexisting* union membership as a condition of obtaining employment creates too great a barrier to free employment to be longer tolerated.[31]

The second point of the Senate Committee's interpretation of *justice* concerning compulsory-union-membership of the union-shop type seems to have had some

[26] *Senn* v. *Tile Layers Protective Union*, 310 U. S. 468, 1937.
[27] *Ibid.*
[28] *Ibid.*, 480.
[29] *Colgate-Palmolive-Peet Co.* v. *NLRB* 338 U. S. 355, 362-3; 70 S. Ct. 166, 169-170.
[30] *Senate Report No.* 105, 80th Cong., 1st Sess., p. 6. (Italics supplied.)
[31] *Ibid.* (Italics supplied.)

miscarriage. Senator Taft, the undeniable father of the compulsory-union-membership Section 8 (a) (3) of the Taft-Hartley law, said that "... the bill permits the *union shop*, which is the customary form of employment in the United States"[32] and that "... in the bill we say that the employee *must join the union* within 30 days after he is employed."[33] However, the NLRB and the Courts have held that a legal Taft-Hartley union-shop contract *does not compel* or *force any employee to join a union* but only requires him to "... tender the periodic dues and initiation fees uniformly required as a condition of acquiring and retaining membership"[34] in the union.

Since the Court, in the Union Starch case, said that "... if resort to legislative history is had, the statements of those who supported the legislation and secured its passage will be accepted in determining its meaning,"[35] we have no choice but to see what Senator Taft and his supporters said about the compulsory—union—membership of Section 8 (a) (3) of the Taft-Hartley law. It was Senator Taft who almost singly championed Section 8 (a) (3) in the Committee Hearings, rationalized it in his Senate Committee's Report, proposed it to and piloted it throught the Senate, defended it against the abolishing amendment by Senators Ball and Byrd, and parented its passage over a Presidential veto. The Bills, Reports, and record of the House on the Union-shop clause—all of which were rejected—cannot, therefore, be the controlling factors in determining the meaning of the union-shop Section 8 (a) (3) of the Taft-Hartley law.

A comprehensive, objective study of the Senate legislative history of Section 8 (a) (3) compels one to conclude that the miscarriage of union-shop *justice* took place somewhere, by accident or design, between its conception in the mind of the maker and its delivery by the pen of the bill drafter. The word "*denied*," inserted and found in Section 8 (a) (3) (B), is the crux of the difference between the mind of the maker, Senator Taft, and the pen of the drafter. Senator Taft never meant that the ordinary and customary union-shop contract requiring *all* employees under the contract to *join the union* would or could be satisfied by only "tendering dues and initiation fees uniformly required as a condition of acquiring membership."

Textual comparison of Taft's Senate Bill 1126 and Taft's Senate Committee Report on that Bill positively proves that the word "denied" is the difference which made it possible for the NLRB and the Courts to rule that under a union-shop contract employees did *not have to join the union* but only tender dues and initiation fees. Section 8 (a) (3) of Taft's Senate Bill 1126 providing for the union-shop contract, which is identical with the Taft-Hartley law, states that:

> Provided further, That no employer shall justify any discrimination against an employee for nonmembership in a labor union
>
> (A) if he has *reasonable* grounds for believing that such membership was not available to the employee on the same terms and conditions generally applicable to other members or

[32] 93 *Daily Cong. Rec.* 5087, May 9, 1947. (Italics supplied.)

[33] *Ibid.* (Italics supplied.)

[34] *Union Starch & Refining Co.* v. *NLRB* 186 F. (2d) 1008, 1012, Feb. 2, 1951.

[35] *Ibid.*, 1012.

(B) if he has reasonable grounds for believing that membership was *DENIED* or *terminated* for reasons other than the failure of the employee to *tender* the *dues* and *initiation fees uniformly required* as a condition of acquiring or retaining membership.

Contrast that with the Senate Labor Committee's Report on that very Section, written by Senator Taft, which says:

Under the amendments which the committee recommends, employers would still be permitted to enter into agreements *requiring all* employees in a given bargaining unit to *become members* 30 days after being hired.... But in order to safeguard the rights of employees after such a contract has been entered into, three additional safeguards (only two of which are relevant) are provided:

(1) Membership in the union *must be available* to an employee on the *same terms* and *conditions generally applicable* to other members;

(2) *EXPULSION* from a union cannot be a ground of compulsory discharge if the worker *is not delinquent* in paying his initiation fee and dues.[36]

Senator Taft's striking omission or deletion of the word "*DENIED*" from his *second safeguard*, which conceptionally corresponds to what he thought Section 8 (a) (3) (B) was intended to mean, cannot be charged to paternal carelessness. The same deletion was made by the Joint Study Committee of Labor Relations in its analysis of the objectives of S. 1126 when it said that under a union-shop contract "... it becomes an unfair practice for an employer to discharge an employee under a compulsory-membership clause if he has reasonable grounds for believing ... (B) that membership in the union was *terminated* for reasons other than nonpayment of regular dues and initiation fees ...."[37] The same Committee made the same deletion when commenting on Section 8 (b) by saying that "The labor organization may not persuade or attempt to persuade the employer to discriminate against an employee ... (who) has *lost* his union membership by failing to tender the dues or initiation fees uniformly required as a condition of membership ...."[38]

Nowhere in the Hearings or Reports of the Senate Labor Committee is the naked "tendering of dues and initiation fees" considered as satisfying the "requirement for *obtaining* membership in the union as a condition of employment" or of "*joining* the union." Tendering of dues and initiation fees is solely and exclusively associated with *expulsion* or *termination* from a union. Refusing to "tender dues and initiation fees" was considered to be the *only reasonable* cause for *expulsion* or *termination* of membership from the union, which *loss* or *termination* of membership could be a legal basis for compulsory discharge.

FLOOR DEBATE

The debate on the floor of the Senate conclusively demonstrates that Senator Taft and his supporters were attempting to legalize a modified type of Wagner Act union-shop contract which *absolutely required* every employee under the

[36] *Senate Report No.* 105 on S. 1126, 80th Cong. 1st Sess. p. 7. (Italics supplied.)
[37] *Ibid.*, p. 20. (Italics supplied.)
[38] *Ibid.*, p. 21. (Italics supplied.)

agreement to *become* and *remain* a member of the union as a condition of employment after 30 days except when (A) membership was *not available* to the employee on *equal terms* with other members and (B) when membership in the union was *terminated* for reasons other than nonpayment of dues and initiation fees uniformly required.

Senator Ball supported this position when he admitted that the Committee Bill ". . . . takes care of the worst abuses of the *union shop* in maintenance of membership in that it prevents a union from taking away a man's job and the right to work by *expelling* him from the union on any grounds other than failure to pay his dues."[39] Nevertheless, Senator Ball introduced an amendment to outlaw the union shop. He did that because of the ". . . undemocratic and unliberal requirement . . . that in order to work and earn a living in his chosen occupation, if there happens to be a union-shop contract, the individual *must*, regardless of his own convictions, *join* the *union* and pay his dues to it."[40] He did not hold that all the employee under a union-shop contract had to do was to "tender dues and initiation fees uniformly required as a condition of membership" in the union.

The *compulsory forcing* of an employee to *join* the *union* was the core of most of the opposition to Senator Taft's union-shop provision which became part of the Taft-Hartley law. Cecil B. DeMille, violently opposed to compulsory union membership, could argue before Senator Taft's Labor Committee that "There is only one argument for the closed shop (which he considered the same as the union shop) that has any shadow of merit—the argument of the 'free ride.' " Its proponents say that if a union gets benefits for all the workers in a shop, the nonunion workmen get a free ride without paying for it. The reasoning is sound, but the conclusion, that therefore every worker should be *forced to join the union*, goes far beyond the premises. It would be one thing if a man could *pay tribute to a union for the benefits* he receives and *then be let alone* to live his life and pursue his destiny in freedom, *but* it is entirely another thing when, *after having paid his tribute* and become a *member*, his entire life is circumscribed and his fundamental rights laid open to invasion by the union."[41]

With somewhat similar sentiments Senator Donnell, in a colloquy with Senator Taft, said "I do not regard the payment of dues as the important point at all. It seems to me that the important point is that in the situation that exists under the (union-shop) bill as it now stands, a man will not be able to hold a job under a contract of the sort we have discussed, unless within 30 days after he takes the job he *joins a union*, although *he may not wish to join it at all*."[42]

Senator Taft answered Senator Donnell and Mr. DeMille's implication that it would be far less objectionable to permit "a man to pay tribute to a union for the benefits he receives and then let him alone" and *not make him join the union.*

[39] 93 *Daily Cong. Rec.* 5087 May 9, 1947. (Italics supplied.)
[40] *Ibid.* (Italics supplied.)
[41] *Hearings, Comm. on Labor & Pub. Welfare, U. S. Senate*, 80th Cong. 1st Sess. Pt. 2, p. 806. (Italics supplied.)
[42] 93 *Daily Cong. Rec.* 5088 May 9, 1947. (Italics supplied.)

Taft did this by a reference to the Canadian Rand Rule where ". . . . there can be a closed shop or a union shop, and the union does not have to admit an employee who applies for union membership, but the employee *must, nevertheless,* pay dues, even though he *does not joint the union.*"[43] Then Senator Taft made the astonishing statement, at least in the light of the Board and Court decision in the Union Starch case, that "If (the Canadian employees) *pay the dues without joining the union,* they have the right to be employed. That in effect is a kind of tax, if you please, for union support, if the union is the recognized bargaining agent for all the men, but there is *no constitutional way by which we can do that in the* United States."[44]

"Trying to be strictly practical and to meet the problems which had arisen" Senator Taft said that he ". . . thought that it would be a mistake to go to the *extreme* of absolutely outlawing a contract which provides for a *union shop, requiring all employees to join the union,* if that arrangement met with the approval of the employer . . . and a majority of the employees and is embodied in a written contract."[45] However, Senator Taft put two and only two safeguards to protect the employee under the union-shop contract. They are extremely simple and cannot lend themselves to misinterpretation. The safeguards state that:

1. In the case where a man is refused admittance to a union, when an employer employs a nonunion man, and during the first 30 days of his employment he goes to the union and says, '*I want to join the union,*' but the *union refuses to take him.* It is provided that in such case the employer shall not be compelled to discharge the man simply because the *union will not let him join the union* on the same terms and conditions as any other member.[46]
2. The bill further provides that *if* the man is admitted to the union, and *subsequently* is *fired from the union for any reason other than nonpayment of dues,* then the employer shall not be required to fire that man.[47]

Seeking to save his union-shop Section 8 (a) (3) from the abolishing amendment by Senators Ball and Byrd, Senator Taft said that "My own philosophy is that we have to decree either an open shop or an open union. The committee decreed an open union. I believe that will permit the continuation of *existing* (union-shop) relationships . . ."[48] Senator Taft sold the Senate of United States his own type of union shop which required (1) all employees in the unit to *join* the union if membership was open to them on non-discriminatory terms and (2) to *retain membership* in the union by "tendering dues and initiation fees uniformly required as a condition of membership." He *did not* sell them the statutory "tendering dues and initiation fees membership "type of union shop. The Senate bought Taft's type of union shop by a 57 to 21 vote when it defeated the union-shop-abolishing amendment of Senators Ball and Byrd.

[43] *Ibid.* (Italics supplied.)
[44] *Ibid.* (Italics supplied.)
[45] *Ibid.* (Italics supplied.)
[46] 93 *Daily Cong. Rec.* 3953, April 23, 1947. (Italics supplied.)
[47] *Ibid.* (Italics supplied.)
[48] 93 *Daily Cong. Rec.* 5088 May 9, 1947. (Italics supplied.)

The record of 1) the pre-Taft-Hartley union-shop history and practices, 2) the language and interpretation of the Wagner Act by the NLRB and the Courts, and 3) the Senate legislative history of Section 8 (a) (3) union-shop clause of the Taft-Hartley law reveals that all employees covered by a union-shop contract were required to join the union as a condition of employment. Nevertheless, the NLRB and the Courts, considering the letter of the law as applied to the facts in the Union Starch case, have decided that a Taft-Hartley union-shop contract does not require, force, or compel any employee to join any union but only to "... tender dues and initiation fees uniformly required as a condition of membership." It is necessary, therefore, to briefly survey the facts, NLRB, and Court decisions on the Union Starch case.

In the Union Starch case, three employees, working under a legal union-shop contract,[49] called at the union office where the union business agent told them that "... in order to join the Union it was necessary to pay dues and an initiation fee, file an application card, attend next meeting (at which time they were to be voted upon) and take the oath of loyalty to the Union. The (three employees) *tendered* the proper amount of initiation fees and dues which (the business agent) refused to accept until they had been voted upon and had taken the obligation of membership."[50]

When "... each of these employees *failed* and *refused* to do anything towards *becoming* a member (of the union) other than to offer to pay a sum of money equal to the initiation fee and dues which members were currently paying"[51] the employer, having received two notices from the union to discharge them and having found that the employees would do no more than tender dues and initiation fees, discharged them.

The employer complied with the union's request to discharge the three employees because they refused to fulfill all the conditions of membership *generally applicable to all members* in the bargaining unit, namely (1) attend the meeting at which they were to be voted upon, (2) take the obligation of membership, and (3) pay the initiation fees and dues."[52]

"The Trial Examiner (for the NLRB) found that Respondent Company *was justified* under the duly-authorized union-shop contract, in honoring the Respondent Union's demand for the discharge of the three nonmembers; although the Respondent Company knew that these three nonmembers *had tendered* 'initiation fees and dues' to the Respondent Union without being accorded membership in the Union."[53]

[49] The contract contained, inter alia, that "All present employees in the bargaining unit *must* become members of the Union within 30 days after the execution of this agreement—(April 2, 1948)." 87 *NLRB* 779, 780. (Italics supplied.)

[50] *Union Starch & Refining Co.* v. *NLRB* 186 F. (2d) 1008, 1010. (Italics supplied.)

[51] *In re Union Starch & Refining Co.* 87 *NLRB* 779, 783. (Italics supplied.)

[52] *Ibid.* (Italics supplied.)

[53] *Ibid.*, 782. (Italics supplied.)

National Labor Relations Board

However, the NLRB, in a three to two decision,[54] reversed the Trial Examiner. It found that the employer and the union had engaged in an unfair labor practice of discriminating against the three employees. The Board did this, it seems to me, by concisely confining itself to the canons of construction and the legal literalism of statutory language rather than objectively observing historical precedents and especially Congressional *intent* abundantly evident in the Senate Hearings, Reports, and statements of Senator Taft and his supporters.

The Board came to its three to two decision because it "... read the statutory language ... (of) proviso (B) (in Section 8 (a) (3) as extending protection to any employee who *tenders* periodic dues and initiation fees *without* being accorded membership."[55] "We cannot assume," said the Board, "that Congress, by using the term '*denied*,' intended to permit unions to forestall applications for membership and thereby circumvent the policy expressed in proviso (B)."[56]

Confining itself solely to *statutory language* the Board was on solid ground, but the record gives little or no support to the Board's statement that "Nor does the legislative history call for a different result. Quite the Contrary. Although the legislative history does establish that Congress wanted to protect from discharge an employee 'unreasonably' *denied* membership, *Congress* specified what it regarded as reasonable (namely) failure of the employee to tender the dues and initiation fees."[57]

Statutory languague and legislative history of Section 8 (a) (3) clearly call for a different result. Statutory language and legislative history both undeniably establish that Congress wanted to protect from discharge employees "unreasonably" *denied* membership in the union. But the admission of that fact, however, cannot compel us to admit that the *legislative history* demonstrates or even indicates that "Congress *specified* what it regarded as reasonable (denial of membership in the union, namely,) the failure of the employees to tender the dues and initiation fees." Nowhere in the legislative history has Congress *specified* what it regarded as either *reasonable* or *unreasonable denial of membership* other than the general terms that any and all conditions or terms must be non-excessive and non-discriminatory.

Congress did *specify* by both statutory language and legislative history "That no employer shall justify any discrimination against an employee for nonmembership in a labor organization (A) if he has reasonable grounds for believing that such membership was not available to the employee on the same terms and conditions generally applicable to other members."[58] Congress also did *specify* by both statutory language and legislative history that "It shall be an unfair labor practice for a labor organization or its agents ... to require of employees covered

[54] Chairman Herzog, Members Murdock and Gray for the majority, Dec. 16, 1949. Members Huston and Reynolds for the minority, Feb. 8, 1950.

[55] *In re Union Starch & Refining Company* 87 *NLRB* 779, 783–4. (Italics supplied.)

[56] *Ibid.*, 785. (Italics supplied.)

[57] *Ibid.*, 785 (Italics supplied.)

[58] 49 Stat. 449, Section 8 (a) (3).

by (a legal union-shop contract) the payment, as a condition *precedent to becoming a member* of such organization a fee in an amount which the Board finds *excessive* or *discriminatory* under all the circumstances."[59] But nowhere in the *legislative history* does Congress *specify* the limitations on *denial* of membership in terms other than that "membership (must be) available to the employee on equal terms with other members";[60] that the "union (must admit) the employee as a member of the union on the same terms and conditions as those on which any other member of the union is admitted";[61] or that membership must be open to them "on the same terms as apply to other members."[62] The only penalty incurred by the union for not conforming to these general limitations is that the union-shop membership requirement cannot be enforced.

Legislative history clearly confirms that Congress consistently considered and specified that it would be *reasonable* for an employer operating under a legal union-shop contract to discharge any employee whose membership in the union had been "*terminated* for . . . nonpayment of regular dues and initiation fees"[63] or if " . . . the worker was . . . *delinquent in paying* his initiation fees and dues"[64] or " . . . if the employee has *lost* his union membership *for failing to tender* the dues or initiation fees uniformly required as a condition of membership."[65] Conversely Congress consistently held that it was *reasonable* to discharge any employee who, under a legal union-shop contract, *refused to join the union* as long as membership in the union was available to him on the same terms and conditions generally applicable to other members.

Discharging an employee because his union membership had been *lost* or *terminated* for failure to tender dues and initiation fees uniformly required as a condition of membership is, quite the contrary, substantially and entirely different from being discharged because union membership was *denied* for "failure of the employee to tender the dues and initiation fees uniformly required as a condition of membership" or because membership was *denied*, as in the Union Starch case, because the three employees failed and refused to comply with the "same terms and conditions generally applicable to other members," conditions that included *tendering* dues and initiation fees uniformly required as a condition of membership.

The very Senate Report to which the Board refers to prove its position says that ". . . it becomes an unfair labor practice for an employer to discharge an employee under a compulsory-membership clause if he has *reasonable* ground for believing

(A) that membership *was not available* to the employee *on equal terms* with other members,

[59] *Ibid.*, Section 8 (b) (5). (Italics supplied.)
[60] *Senate Report No.* 105, 80th Cong., 1st Sess., p. 7, 20.
[61] 93 *Daily Cong. Rec.* 5087, May 9, 1947.
[62] *Ibid.*, 4317, April 29, 1947.
[63] *Senate Report No.* 105 on S. 1126, 80th Cong., 1st Sess. p. 20. (Italics supplied.)
[64] *Ibid.*, p. 7. (Italics supplied.)
[65] *Ibid.*, p. 21. (Italics supplied.)

(B) that membership in the union was *terminated* for reasons others than non-payment of regular dues and initiation fees . . ."[66]

In commenting on Section 8 (b) (2) the same Report says that "The labor organization may not persuade or attempt to persuade the employer to discriminate against an employee except for two reasons (only one of which is relevant): First, the employee has *lost* his union membership for *failing to tender* the dues or initiation fees uniformly required as a condition of membership."[67]

Sponsoring and supporting Senators, giving Congressional intent to the compulsory-membership union-shop contract provided for in the Taft-Hartley Act, held that membership must be *obtained* and *retained* not later than 30 days with two exceptions: (1) when membership was *denied* because of some excessive or discriminatory terms, (2) when membership was *terminated* or *lost* for reasons other than tendering initiation fees and dues uniformly required as a condition of membership. In fact, Senator Taft, in effect, said that ". . . there is no constitutional way by which we . . . in the United States (can give an employee) the right to be employed (under a legal union-shop contract) if he is forced to pay his dues and initiation fees *without joining the union*."[68] The Board's Union Starch decision, supported by the Courts, provides for just such an unconstitutional condition.

Circuit Court of Appeals

The Seventh Circuit Court of Appeals thought that, in the Union Starch Case, the ". . . Board construed the statute in a reasonable manner and gave effect to all its provision, and that its interpretation was in harmony with the *purpose of Congress* to prevent utilization of union-security agreements *except to compel payment of dues and initiation fees*."[69]

Declaring that "If resort to legislative history is had, the statements of those who *supported* the legislation and *secured* its passage *will be accepted in determining* its meaning,"[70] the Court cited one solitary statement of Senator Taft, the father of Section 8 (a) (3). The very statement itself could reasonably be used to prove a position contrary to that held by the 3 to 2 Board and Court decision. The Court cited Senator Taft as saying "The union could refuse the man admission to the union; but if he were 1) *willing to enter the union* and 2) pay the same dues as other members of the union, he could not be fired from his job because the union refused to take him."[71] It is extremely pertinent to note that Senator Taft said that the employee must first *be willing to enter the union*, which the employees in the Union Starch case refused to do, and then, if accepted, pay the same initiation fees and dues as other members.

The Court might have chosen one of many more germane statements of Senator Taft such as "In this bill we say that the *employee must join the union* within

[66] *Senate Report No.* 105 on S. 1126, p. 20.
[67] *Ibid.*, p. 21, (Italics supplied.)
[68] 93 *Daily Cong. Rec.* 5088, May 9, 1947. (Italics supplied.)
[69] *Union Starch & Refining Co.* v. *NLRB* 186 F. (2d) 1008, 1012. (Italics supplied.)
[70] *Ibid.* (Italics supplied.)
[71] *Ibid.* (Italics supplied.)

30 days after he is employed. We say that if at the time the union will not admit the employee as a member of the union, on the same terms and conditions as those by which any other member of the union is admitted, nevertheless the employer can continue to employ that man. That provision takes care of the arbitrary rules on the part of unions."[72] In that statement there is not the remotest reference to the fact that Senator Taft or the Congress intended that union membership could or would be acquired by only tendering dues and initiation fees.

Senator Taft went on in that same statement to the second safeguard against union abuses under the union shop to say that "There are also many abuses in connection with *firing* men (from the union). We further provide in the bill that if a man is *fired by the union* for some reason other than nonpayment of dues, the employer does not have to discharge him. The abuse at which that provision is aimed is the usual type, and is the *only* type of abuse testified to."[73] Senator Taft tenaciously tied tendering of dues and initiation fees solely and exclusively with *expulsion*, *termination*, or *loss* of union membership that had already been *desired* and *acquired*.

The Court, after citing but one statement by Senator Taft, a statement that could easily be used against the Court's decision, referred to the history and reports on House Bill 3020. The union-shop section of this Bill was not only strikingly different from Section 8 (a) (3) of S. 1126, which substantially became the Taft-Hartley law, but was also entirely rejected by Congress. By the Court's own dictum—"the statements of those who supported the legislation and secured its passage will be accepted in determining its meaning"—we must, therefore, be controlled by the statements of Senator Taft and his Senate supporters. Those statements uniformly require all employees under the union-shop contract (1) to *join the union* if membership is available on equal terms with other members, and (2) *retain membership* by tendering dues and initiation fees uniformly required as a condition of membership. Nowhere do they say that membership may be acquired and employment thereby protected simply and solely by "tendering dues and initiation fees."

CONCLUSION

The union-shop contract, made by an employer and the union that is the legal representative of his employees, which is now permitted by the Taft-Hartley law *does not* (1) *create a monopoly* or (2) force *any* employee to *join the union*. Any monopoly power that exists comes from the collective-bargaining contract and not from the union-shop clause in that contract. This monopoly power can and does exist even when there is no union-shop clause in the contract.

After the decision by the National Labor Relations Board in the Union Starch case, upheld by the Seventh Circuit Court of Appeals and the United States Supreme Court's refusal to grant a writ of certiorari, *no employee is forced to join* a union having a legal union-shop contract. Statutory language gave legal grounds

[72] 93 *Daily Cong. Rec.* 5087, May 9, 1947. (Italics supplied.)
[73] *Ibid.*, 5087–5088. (Italics supplied.)

for the Board's decision. Legislative history of Congressional *intent* clearly and conclusively demonstrates that under a legal union-shop contract *all* employees would be *required to join the union* after 30 days as a condition of employment *if* membership in the union was available on equal terms with other members.

In spite of the Board and court decision, it is still the *intent* and *mind* of Congress, as expressed by Senator H. A. Smith, Chairman of the Senate Labor Committee, that *all* employees under a legal union-shop contract must "... *join the union after the prescribed period* ..." or be fired. Senator Smith recalled that at one time when the Taft-Hartley law was being made he suggested: "Let's stay away from the 'union shop' or 'closed' and simply require that every worker who is in the particular place, who benefits by the bargaining process, ... at least should pay what is equivalent to dues to the union in order that he wouldn't 'free ride.'"[74]

Senator Smith's suggested "tendering-of-dues-and-initiation-fees" type of union-membership was rejected and Senator Taft's regular "1) join-the-union and 2) pay-the-initiation-fees-and-dues" compromise union-shop contract was accepted. Under the Taft compromise Senator Smith today says that "If the worker *joins the union* after the prescribed period, he can't be fired from his job as long as he pays his dues—he can't be fired by the employer just for a violation of some rule in the union. They can't say 'You've got to fire this fellow.' They can fire him out of the union if they want to, but he isn't fired out of his job."[75]

During the floor debate over the union-shop when the Taft-Hartley law was being made, Senator Smith, member of the Senate Labor Committee and now its Chairman, said that "It seemed to me to be a denial of freedom of action to any worker to say to him, 'You cannot earn a livelihood *unless you join the union.*' ... However, I discovered from correspondence with employers and workers in my own State that there were cases in which the so-called *union shop was justified*, by agreement between the employer and the employees. *We provided in our bill for the so-called union shop.* That is to say, the employer can employ anyone he desires to employ, but within 30 days after employment the *employee must join the union* ... provided that membership in the union is open to the worker on terms as favorable as those extended to the existing membership. ..."[76] And with Senator Taft, who said that he "... was not willing to go to the extent of abolishing the possibility of the union-shop contract"[77] because "... in many trades it was entirely customary and had worked satisfactorily,"[78] they persuaded Congress to "... permit the union shop because we realized that by agreement between employers and employees *it is proper to have a union shop.*"[79]

[74] *U. S. News & World Reports*. Feb. 27, 1953, p. 27. (Italics supplied.)
[75] *Ibid.* (Italics supplied.)
[76] 93 *Daily Cong. Rec.* 4412, April 30, 1947. (Italics supplied.)
[77] *Ibid.* (Italics supplied.)
[78] 93 *Daily Cong. Rec.* 5087, May 9, 1947.
[79] 93 *Daily Cong. Rec.* 4412 April 30, 1947. (Italics supplied.)

BOOK REVIEWS

Europe and the United States in the World Economy. By Robert Marjolin. Durham, N. C.: Duke University Press, 1953. Pp. xiv, 105. $2.00.

This volume is a series of five lectures given at Duke University in the fall of 1951. The author is Secretary-General of the Organization for European Economic Co-operation (OEEC) and has played an intimate role in the postwar reconstruction of Europe.

In a brief preface Mr. Marjolin explains the three main objectives of his lectures in these words: (1) "To describe the progress made and the setbacks suffered by Europe in the preceding three years in its efforts to stand once again on its own feet . . . ," (2) "To analyse the new position of the United States in (the) world economy . . . ," and (3) "To sketch in broad outline the new pattern of world trade and financial relations which is slowly emerging. . . ."

That the author has substantially achieved these objectives within the space of little more than one hundred pages without resort to easy generalities or vague expressions of opinion may come as a surprise to the many readers who have suffered from the contemporary vogue of prolixity and statistical padding. Moreover, Marjolin's style is a delight—unpretentious, direct, and easy-flowing. Although he eschews a narrow technical analysis, the author does not evade the unresolved issues of inflation, discrimination, productivity, rearmament, the dollar gap, etc. which continue to plague the world economy. Above all, this book is distinguished by a flexible, common-sense approach to difficulties and a healthy optimism. It is easy to see that Mr. Marjolin is a doer, interested in getting on with the job. His mind harbors no economic or political dogmatisms but rather a belief that through international cooperation, involving concession and compromise, real progress is not only possible but highly probable. He closes his lectures with this reminder: "Flexibility of mind, avoidance of the dramatic, willingness to change our opinions—these, more than anything else, are what we need in this fast changing world."

In his first lecture the author hails the Marshall Plan as a unique experiment which made possible a spectacular recovery in European production and the maintenance of social and political stability. But he does not hesitate to point out certain short-comings which block the attainment of a fully viable European economy, such as inadequate coal production, extreme sensitivity to economic events in the United States, and the need for radical reform in the economic and social structure of many European countries. Notwithstanding Marjolin's optimistic vein, little has been done in the last two years to overcome these fundamental obstacles to further progress.

The next three lectures describe and interpret the impact of Korea upon the European economy, the many-sided movement towards European integration, and the European Payments Union. In a final lecture the author traces the relationships between Europe, the United States, and the under-developed regions of the free world. Marjolin believes that the most important task is the

achievement of a continuously expanding economy with relatively stable prices if "we want the free world to survive and develop." The major responsibility of the United States lies in the maintenance of a stable economy whereas the responsibility of Europe is to instill a dynamism in its economy which will raise productivity and make European products competitive in world markets.

The reviewer highly recommends this book to both the specialist and layman. Although the former will find that much of what Mr. Marjolin says is pretty well known, he should enjoy the conciseness and clarity of expression. For the latter there are no qualifications whatsoever: it is the quickest, most delightful, and least expensive ($2.00) way to respectable enlightenment in matters which are the vital concern of all of us.

University of Maryland FRANKLIN R. ROOT

International Economics. By Charles P. Kindleberger. Homewood, Ill.: Richard D. Irwin, 1953. Pp. xx, 543. $6.00.

This new book in the field of international economic theory and analysis by Dr. Kindleberger is not just another text. Both in arrangement and in content the author has departed from the usual treatment.

The basic organization of the book revolves around the balance of payments, causes of change in its various segments, and the problems involved in attempting to re-establish equilibrium once it is lost. Without doubt this arrangement reflects the influence upon Professor Kindleberger's thinking about international problems resulting from his contact with the techniques and procedures followed in ECA and MSA. Analysts in those agencies found it impossible to think intelligently about the problems of European recovery without centering their analysis around the balance of payments and the national income accounts.

Increased realism in the study of international economics should result from this organization around the basic statistical statement. There are four main divisions in the book, as follows: (1) The balance of payments and the foreign-exchange market. (2) The current account in the balance of payments. (3) The capital account in the balance of payments. (4) Balance of payments disequilibrium and adjustment. As might be expected the second section receives the most attention with ten chapters devoted to current account analysis out of a total of twenty-seven.

The content of the book also departs from many of the widely used texts. The author uses examples from very recent experience, and these examples show that he has a real understanding of current international problems. This is not a text for the teacher who loves to dwell on the nineteenth century as a golden age of multilateral trade, private foreign investment, and automatic metallic standards. Events before 1914 receive little more attention than the glories of Greece and Rome. Classical theory is discussed, but the emphasis is placed upon how necessary has been the contribution of recent income theory in supplementing the older analyses. For the teacher who wants his students trained in up-to-date theory illustrated by recent world experience, this text should be carefully considered.

Unfortunately, the book is not easy to read. In part the difficulty results from the fact that theory at an advanced level constitutes a much larger part of the book than in most texts in this field. Even the advanced student with an excellent background in basic economic theory will find the going hard at times, and the mediocre student is almost certain to get lost time after time. Another part of the difficulty lies in Dr. Kindleberger's style; his treatment of theory tends to be excessively abstract and not sufficiently relieved either by illustration or by example. Sometimes, as in Chapter 9 dealing with income changes, the author becomes so interested in developing the graphical apparatus that he fails to demonstrate the major significance of these tools in analyzing the impact of income changes upon the balance of payments.

Dr. Kindleberger is definitely at his best when he turns from abstract theory to the analysis of current problems. Chapter 13 on exchange control is certainly one of the best treatments of the problem as it now exists to be found in any textbook. Only a capable economist intimately acquainted with the operations of ECA could have written the chapter on the European Recovery Program. Chapter 18 on direct investment is another well done section.

In the hands of a capable teacher who can clarify some of the more difficult sections on theory this book will prove to be an admirable text for the advanced undergraduate course in international economics. Dr. Kindleberger's writing combines a knowledge of theory and of recent developments; such a combination of abilities is not found in many authors of texts in this field.

University of Alabama R. M. HAVENS

Strukturwandlungen und Nachkriegsprobleme der Wirtschaft Belgiens. By Gerhard Pfeiffer. (Kieler Studien. 19. Forschungsberichte des Instituts für Weltwirtschaft an der Universität Kiel). Kiel: 1951. Pp. vi, 112. DM8.-.

Dr. Gerhard Pfeiffer's small book presents a clear and concise analysis of the "structural changes and postwar problems of Belgium's economy." No comparable survey exists in Belgian economic literature. More, a perusal of the bibliographical notes in the text reveals a grave paucity of basic Belgian source materials on the economy of the country, which has long troubled researchers in the field. Indeed the author had to rely on non-Belgian sources for many facts and statistics in order to construct a meaningful and comprehensive account of the recent evolution and development of Belgium's economic structure. His book thus makes a valuable contribution to our knowledge of the subject.

The groundwork for the analysis is laid in a brief introduction to the two parts comprising the text. Pfeiffer here discusses the two principal, largely fortuitous, factors which assured Belgium's remarkable recovery as compared with that of its neighbors after the war. These were: the almost unimpaired survival of the country's industrial apparatus, which "from the Fall of 1944 could work for restoring normal conditions in Belgium proper and later in Europe," and its rich colonial empire in the Belgian-Congo, which, through the large foreign exchange reserves accumulated in the years 1940–1944, enabled Belgium to

finance the urgently needed imports of raw materials and foodstuffs "for reviving the generally stagnant economy" after liberation. As a result, the different spheres of the Belgian economy soon reached their average prewar degree of activity. Simultaneously industrial transformations began, which in recent years have adopted the structure of Belgium's economy to the changed conditions of the international market.

Pfeiffer devotes Part I to a careful statistical analysis of these structural transformations. The analysis points up Belgium's dependence on the world market and the effect that this has had on the economic structure of the country, especially in the post-World War II period. As "the volume of production of Belgian industry exceeds in numerous branches the economy's own capability of absorption . . . the extent of production and therewith employment depend vastly on sales possibilities abroad." Hence, changes in world demand affect the Belgian pattern of production; in turn, "any transformation in the country's industrial structure must harmonize with international requirements, in order that the competitive ability of Belgian industry may be maintained." The author shows that already before 1914, international demand had stimulated shifts in Belgian industry to "higher stages of production." But on the whole, though the shifts were intensified in the interwar period, the Belgian economy had retained the original structure developed in the 19th century. It is only since World War II that Belgian industry has "adapted itself elastically to the changed international demand." Under its influence a number of industries (e.g., iron and steel, and textiles) have expanded extraordinarily, while, at the same time, some branches of the traditionally important consumer goods industries (glass and leather) have been retarded. The iron and steel industry (as well as the metals fabricating industry which depends on it), to cite only one case, has been fully modernized and rationalized through large capital investments, stress being laid on the expansion of facilities for the manufacture of end products rather than on the capacity of crude production. This has enlarged the share of finished goods in the industry's total output.

In Part II, Pfeiffer takes up the problems which the Belgian economy faced after the last war and the policies that were adopted to meet them. He discusses the national income of the country, wages and prices, investment and capital formation, money and finance, foreign trade and the payments balance, unemployment and the Benelux Union. Although most topics are adequately treated, the discussion of the Benelux Union is regrettably sketchy. Because of limitation of space, the monetary and financial developments only will be touched on briefly.

While the relatively intact economic structure formed the basis for Belgium's postwar recovery, it was, as the author correctly emphasizes, the "orthodox" monetary and financial policy of the government that has played an indispensable part in maintaining the economic health and vigor of the country (by creating an environment conducive to private saving and investment) and that has effectuated the consolidation of Belgium's position on the international market.

Indeed, it was the primary task of the rigorous monetary and financial measures "to facilitate the country's economic integration with the international market." The author believes that these measures have been "appropriate and justified."

Pfeiffer's work is a good introductory text on the postwar Belgian economy and should be of interest to students and researchers in the area.

Washington, D. C. ARTHUR LEON HORNIKER

Economic Planning for the Peace. By E. F. Penrose. Princeton, N. J.: Princeton University Press, 1953. Pp. xiv, 384. $7.50.

Any student of international economic relations can appreciate this excellent treatment of the diplomatic struggles that were necessary to give us our post-war economic plans. The background of the author (as economic adviser to Ambassador Winant) gives the work both strength and weakness. The book is a detailed description of the many British-American conferences that were held between 1941 and 1947 to consider post-war economic problems. If Mr. Penrose's information on the "behind the scenes" aspects of these negotiations is complete and accurate, the book gives us an insight into why certain decisions (which to the casual observer are difficult to understand) were reached. In some instances, these negotiations are described in seemingly unnecessary detail. But to the reader interested in the specific contributions of individuals, this detail may be justified.

Two strong criticisms can be made of the book. First, it is written primarily from the British point of view. The author suggests this shortcoming early in the book by explaining that his position in London during this period enabled him to see developments there. That position is understandable; but, perhaps the attributing of the blame to Washington for the lack of progress in negotiations (without complete knowledge of the situation on this side of the Atlantic) was not justified.

Secondly, looking back from our experiences since World War II, it is easy to see that too little planning went into the preparation for the peace. The author is critical of those in power for not devoting more attention in the 1941-1944 period to post-war problems. Although this criticism may be partly justified, we should remember that, at that time, no one knew when and if we would win the war. Had Roosevelt, Churchill, Hull, and their aides had crystal balls, I am sure that more attention would have been given to economic planning for the peace.

Louisiana State University W. H. BAUGHN

The American Economy. By C. Lowell Harriss. Homewood, Ill.: Richard D. Irwin, 1953. Pp. xv, 1051. $6.00.

Professor Harriss has written a new book that is marked by an easy, flowing style and one that exceeds most texts in the abundance of illustrative and factual material. Both in organization and treatment of the subject-matter, he follows the traditional pattern to a greater extent than have a number of postwar

writers. He has sought particularly to stimulate interest on the part of students and to kindle a desire for further inquiry.

In the Introduction three chapters are devoted to the nature and structure of the economic system. Here there are few definitions in a formal sense, the basic economic terms being explained in the discussion rather than defined. The twelve chapters in Section Two deal with the resources, income and organization of production in the United States. The national income is regarded not as end within itself, but as a tool for measuring national production—a concept, however, on which much of our economic analysis is focused. Section Three consists of six chapters and is devoted to the functioning of our monetary and banking system, employment theory and business cycles, while Section Four covers price theory and the allocation of resources. The remaining sections treat, seriatim, the Distribution of Income, International Economics, Public Finance, Public Policy and Economic Growth.

The aim of Professor Harriss has been to combine economic analysis with an adequate description of the structure and functioning of the American economy. This broad goal has been realized with much success, though it has required a book of more than a thousand pages to achieve it. Emphasis has been placed on the treatment of "aggregative" problems and a prime effort has been made to reach a happy balance between fact and theory. In the selection of illustrative material and in the presentation of facts and figures, he has sought to give students an over-all view of our huge and varied economic system. Thus we are informed that the "student trying to learn about the parts of our economy, as well as the whole, can grasp the significance of the particular parts better if he has some way of looking at the whole structure."

It is interesting to note that Professor Harriss has been less motivated by the problem of unemployment and the fear of a shift in the circuit flow of income than have many authors since the thirties. Obviously we have traveled a considerable distance in our economic thinking since the days of the great depression. Moreover, he is far from certain that the Keynesian mechanism of ascertaining saving and investment habits, of devising the multiplier, of setting up procedures to determine how much business plans to invest, of flexible government fiscal policy, can be used as a practical device for the maintenance of full employment. The hope that such a model may be used "has proved illusory," the chief reason being that there is no consistent pattern of consumption spending at different levels of national income. Though close, the relationships between national income and consumption are not "rigorously tight." Even if the direction of change in propensity to consume could be predicted, certainly the degree of change could not. Finally, when there is less than full employment the Keynesian theory fails to tell us (as does the equation of exchange) "how much of the effect of changes in spending will be felt on prices and how much on employment."

It is refreshing to observe how admirably Professor Harriss has tried to avoid a slanted or biased approach in the discussion of both theoretical and practical

issues. He rarely, if ever, allows personal dogmatism to creep into his conclusions—a trait that is all too rare but highly important in the writing of sound textbooks in economics. For example, the answer to the question of whether economics is a science is yes and no. It meets some of the major tests of a science but it also concerns people and people change. Is concentration in American business increasing? The evidence is not conclusive, but available statistics do not clearly show more concentration. The Taft-Hartley law has not solved most of the difficult labor problems, yet the unions do not seem to have been "crippled" in the six years of its operation. What about inflation? Based on the guess that "modern politics has an inflationary bias," the economist can predict that pressure groups will continue to push for increases in income and that recent tendencies toward chronic, creeping inflation will persist. The present support program for farmers has many defects and over the long run "will tend to do farmers little good," but it is not easy to get agreement on changes.

Professor Harriss is to be commended for his lucid, vigorous, down-to-earth method of writing. The analysis is less intricate because of the clarity with which he is able to present his models of exposition. His approach is consistently judicial, and he is surprisingly "modern" in his awareness of current developments in economic life. The book should receive wide acceptance by American colleges and universities.

University of Virginia TIPTON R. SNAVELY

Politics, Economics, and Welfare. By Robert A. Dahl and Charles E. Lindblom. New York: Harper & Brothers, 1953. Pp. xxvi, 557. $5.00.

This volume is an attempt by a political scientist and an economist to use the tools of both subject matters in answering a vital contemporary question—one which does not fit readily into the divisions making up a modern college catalogue. The question is: "What are the conditions under which numerous individuals can maximize the attainment of their goals through the use of social mechanisms?" (p. xxi). However, because of the necessary interrelationships between ends, means, and conditions this question is unanswerable when stated in such an open-ended fashion. For this reason the authors quickly delimit it by making explicit the goals they wish to maximize. These are such subjective yet important ends as democracy, security, progress, etc.

Since the social goals to be achieved are on the one hand qualitative and on the other hand not wholly consistent with one another, the reader will find less of the specific in the answer given than he might wish. At the same time several pointed conclusions are presented, some of them quite controversial in nature. A few of the more important of these conclusions are the following. Rational goal attainment is possible only if it is frankly acknowledged that "both capitalism and socialism are dead," and that therefore social choices are not to be made on the basis of "grand alternatives." Closely related to this conclusion are two others. First, goals should be scheduled along "incrementalist" lines, *i.e.*, they should wherever possible be limited to changes the consequences of which can be predicted with some accuracy by means of the knowledge currently available.

Second, success in rational social living depends upon the development of an inventiveness in the field of *social techniques* comparable to that which has been and is revolutionizing industrial technology.

Another set of conclusions has to do with the institutional framework within which social decisions are made. Thus the authors feel that a higher degree of equality of income distribution is essential to the attainment of the goals enumerated. Equally necessary is a (partial at least) reversal of the trend away from small-group to large-group identification. Still another institutional requirement is a democracy ("polyarchy," in the terminology of this volume) in which "bargaining" between groups plays a less important role.

Other conclusions could be listed. But because this kind of an analysis is necessarily imprecise and not directly verifiable as to results, it is not in the conclusions reached that this book makes its principal contribution and hence its chief appeal to students of several closely-related fields. Its primary importance is rather in the success with which it reduces certain aspects of economics and politics to a common theoretical framework for the purpose of discussing important problems. Such an approach makes it possible to minimize the economist's excessive preoccupation with material ends and means, and simultaneously to offset the political scientist's proclivity to minimize the importance of the material foundation on which so much human behavior rests.

The procedure followed is at base a simple one and the book's format and the writing skill of the authors makes it relatively easy to follow the argument advanced, although the presentation is rigorously theoretical in the non-mathematical sense. Rationality requires first an accurate calculation and second a more or less sensitive control mechanism. The controls used in turn are of four kinds: control by means of group habits or custom ("spontaneous field controls"); the use of rewards and penalties of a non-spontaneous kind ("manipulated field controls"); "command;" and "reciprocity." All of these modes of control are to be found in each of the four different "central socio-political processes" by means of which a community carries on its activities, and by the same token all of these four processes will be found in every community. The processes themselves, ways in which calculations and controls can be brought to bear upon specific social needs, are the following: price system ("control of and by leaders"); hierarchy ("control by leaders"); polyarchy ("control of leaders"); and bargaining ("control among leaders"). Thus communities differ from one another only in the way in which these four processes are in fact combined. (This, by the way, is essentially why "both capitalism and socialism are dead.")

With the use of these conceptual tools the authors proceed to analyze the strengths and weaknesses of each of these central socio-political processes insofar as "economizing" is important, not of course for the purpose of choosing between them in the broad sense but rather for the purpose of assigning to each the functions for which it is best suited. Economists will perhaps be most interested in the analysis of the price system (the frame of reference here veers toward the Schumpeter-Galbraith way of thinking rather than the Berge-Arnold approach),

particularly in view of the fact that the discussion of bargaining is unfortunately limited almost exclusively to bargains in which government plays an active role. Political scientists, on the other hand, will probably devote more of their attention to the discussion of hierarchy and polyarchy as these processes are important in making scarce resources go as far as possible.

No doubt every reader will find a few items which seem to him to be intellectual blind-spots. Few will find much that is new, although the authors have managed to bring together material from a wide variety of sources. (For example, the book does not suffer from the fact that neither of the authors is a social psychologist.) But if both economists and political scientists will keep in mind that its principal purpose is to make it easier for students in these fields to grapple meaningfully with problems in the "no-man's land" between disciplines, they will at least be in a position to appraise this effort from a proper perspective. From that perspective and to anyone interested in these kinds of problems, this reviewer can heartily commend Dahl and Lindblom's work as an interdisciplinary study in the best sense of that much-abused term.

University of Georgia HOWARD R. SMITH

Economic Stability in a Changing World: Essays in Economic Theory and Policy. By John H. Williams. New York: Oxford University Press, 1953. Pp. 284. $5.00.

The contents of this work have not been written by the author just prior to publication. It is a collection of essays, previously published over a period of years in journals dealing with economics and government. In the Preface, the author states that "The central theme of the book is the relation of economic theory to public policy."

On first thought, it might occur to the reader that a book of essays written over a period of years and finally assembled under one cover would not be a very valuable work. However, there is a special value and significance in placing them all together at this time. Most of these articles have been written since the "Keynesian Revolution" was launched in 1936 with the publication of *The General Theory of Employment, Interest and Money.* While most economists hastened to join the ranks, either of the Keynesians or the Anti-Keynesians, Dr. Williams did neither. He readily granted that much in the New Economics was superior to the Old, but he maintained that some of the policies and theories of Keynes should be held suspect, because short-run expedient policies were first adopted and then theory was developed to give it validity. "Very much in the literature of economics strikes me as rationalization after the event," said Williams (p. 4) and he found much in Keynesian policy-making of that sort.

These essays show that Dr. Williams was very skeptical of the idea of secular stagnation, which seemed to call for a fiscal policy of chronic deficit spending, and a secular increase in the size of the public debt. On this point he says "This seems to me to have been a case par excellence, of theory's being carried along by its own internal momentum to the point where fiscal policy threatens to submerge monetary policy, without having proved its own effectiveness. Deficits,

instead of being merely cyclical, became continuous; monetary policy became burdened with the dual and conflicting roles of stabilizing the debt as well as stabilizing the economy, and the emphasis on the former role increasingly overshadowed the latter. This was the kind of problem that I felt some economists overlooked when they belittled the significance of an internal debt on the ground that 'we owe it to ourselves'" (p. 16).

Here we see with crystal clearness that Dr. Williams foresaw the ultimate and fundamental clash between monetary policy and debt policy; the schism which was bound to develop within the Federal Reserve Board over the kind of monetary policy necessary to give economic stability on the one hand, and successful debt management on the other.

One of the most brilliant and constructive pieces of work accomplished by Dr. Williams was in connection with the basic equation of Keynes where he states that the National Income equals Consumption plus Investment. ($Y = C + I$). In explaining this equation, Keynes had said that it is obvious that all that is produced is either consumed or saved. Then he says that "*Savings* and *Investment* have been so defined that they are necessarily equal" (*General Theory*, p. 74). Yet, later on, both Keynes and Keynesians began to speak of *decisions* to save and *decisions* to invest; that if people decide not to consume enough and invest enough, then the national income (Y) will shrink and there will not be either full employment or capacity production. Yet, how can there be *decisions* about that which is automatic? Obviously, there was a discrepancy or contradiction here, and Dr. Williams was the first, so far as the reviewer is aware, to spot the difficulty and get the matter straight. He says that we have here both an *identity* equation and a *causal* equation (p. 49). And it is only when we recast the identity equation into the causal format that we really get to the root of the problem of economic stability and full employment. For, in the causal equation we say that it is the amount of consumption (C), plus the amount of investment (I), which determines the size of the national income (Y). Williams writes it $I + C(Y) = Y$. From this it follows that if either consumption or investment, or both, are not as great as they should be, then national income will fall, the economy will not be stabilized, and full employment will be impossible. How simple and clear does the idea become when Dr. Williams has finished with his criticism and analysis!

Space will not permit the treatment of other ideas in this volume of masterful essays. Yet, if anyone who reads this review is stimulated to consult the work in full, he will find an account of the last meeting with Keynes where Dr. Williams did elicit from Keynes the admission that he no longer hoped for the "Euthenasia of the rentier" class and that the easy money policy had been carried too far (p. 60).

We also find that Dr. Williams is not well pleased with some of the proposals for curing the "World dollar shortage." He feels that some of our international policies are designed to postpone the "Judgment Day" by short run expedients without going to the basic remedy which calls for greater efficiency, better technological processes, and lower unit costs of production on the part of those na-

tions with unfavorable trade balances, for he says, "Basically the cure is productivity" (p. 125).

Louisiana State University H. L. McCracken

The Tax System of Hawaii. By Robert M. Kamins. Honolulu, Hawaii: University of Hawaii Press, 1952. Pp. xii, 194. Paper, $2.50.

From this volume, it is possible to observe the probable development of local and regional tax systems under a centralized national administration. It provides an account of a territorial tax system developed outside the framework of state sovereignty. As Hawaii stands "on the threshold of statehood" its tax system shows the influence of the absence of rigid constitutional limitations which plague so many states. Professor Kamins' book is primarily a description of the existing Hawaiian tax system. He also includes a brief appraisal of its merits and deficiencies and specific suggestions for possible reform.

Proceeding from a consideration of the basic organic act under which the territorial government operates, the author analyzes the economic base of the territory and the over-all tax system. Then he successively considers the individual taxes, the county tax systems, and tax administration in the territory. Perhaps the outstanding advantage which the Hawaiian system has is its centralized administration. With respect to taxes, there is for practical purposes only one level of government in the territory. Local government spends only the funds allocated to it by the territorial legislature. This allows simplicity in the tax structure and probably permits ecnomy in tax administration. But it does not promote local interest in tax matters, and the author suggests that the localities should be given a greater degree of control over their own revenues.

Among the distinctive features of the Hawaiian tax system are the all-inclusive general excise tax which is in fact a turnover tax levied at differential rates for various stages in the distribution process, and the compensation and dividends tax. The latter levy is a gross income tax levied upon employees and dividend recipients at a flat rate and administered through a well-developed system of withholding at the source. Professor Kamins' conclusion that the territorial system is highly regressive is valid but his suggestion that more progressive elements should be included may be challenged by students who believe that regressive state and local systems may complement progressive federal taxes.

In addition to an analysis of the existing tax system, appendixes provide an interesting account of the evolution of the Hawaiian system and a statistical resume of territorial revenues during the past fifty years. The volume should be of considerable interest to students of public finance since it not only provides a critical insight into the Hawaiian system but also contrasts tax conditions in Hawaii with those prevailing in many mainland states.

University of Florida Joe S. Floyd, Jr.

Public Finance. By E. H. Plank. Homewood, Ill.: Richard D. Irwin, 1953. Pp. xi, 772. $6.00.

The role of government in economic activity has changed substantially since the days of Adam Smith, when public finances could be properly compared to

the management of an estate. It is interesting to observe how succeeding public finance texts have gradually been altered in accordance with fiscal trends to suit modern requirements. In this respect Professor Plank has provided us with a text which is realistically balanced. He has given reasonable space to problems of public borrowing and debt management, financial administration, and stabilization policy; but in accordance with common practice he has placed the major emphasis on public revenues and expenditures.

Instead of treating stabilization policy as a separate and distinct subject, he has throughout the book integrated many fiscal policy considerations with other aspects of government finance. The specific analysis of fiscal policy in the final chapters is therefore summary in character rather than introductory.

In some instances Professor Plank's treatment of material is somewhat suggestive. This is particularly true when he discusses the monetary effects of public borrowing and debt management in Chapters 26 and 27. A number of fundamental implications are indicated in the context, but they are not made explicit. Perhaps this is a conservative way of handling these problems; yet it is doubtful if the average student will be able to interpret such implications, unless they are discussed in some detail by the instructor. This is probably not a serious factor in an undergraduate text, however. After all, the basic concepts are clearly presented, and the instructors are free to elaborate upon the broader implications as time and personal inclination dictate.

The organization of the book is excellent. The arguments are presented in straightforward and logical form, and the style is attractive. Undoubtedly this book will quickly assume an assured position among the better textbooks in modern public finance.

University of Maryland HENRY GRAYSON

Economic Aspects of the Second Bank of the United States. By Walter Buckingham Smith. Cambridge, Mass.: Harvard University Press, 1953. Pp. 314. $5.00.

The author of this study holds the chair of the James G. Boswell Professorship of American Economic Institutions at Claremont Men's College, and this book may be described as an intensive economic history which is a kind of "obverse-side survey" of the Jacksonian era. While it emphasizes the financial aspects of the period between 1816, when the Second Bank won its Federal Charter, until 1841, when, operating as a state bank under a Pennsylvania Charter, the Bank disastrously failed, nevertheless the book is broad in scope and deals adequately with political and social aspects. Biographical material on the bank officials, and on the political figures who were most prominent in the controversy between Andrew Jackson and Nicholas Biddle, is given considerable prominence.

I have referred to this book as an "obverse-side survey" of the Jacksonian era (although it does in fact cover several pre-Jackson administrations) because the author's sympathy for the Bank in general and for Nicholas Biddle in particular is obvious throughout the book. The chief points made by Professor Smith, it is true, are already generally accepted by students of the Second Bank and of the Jacksonian period, namely: that the Bank contributed greatly to a sounder monetary and credit system; that it performed useful functions of a

central banking character; that it facilitated the influx of much needed investments from abroad; that Jackson was thoroughly muddled in his thinking concerning money and banking problems and (as usual) permitted his opposition to the Bank to degenerate into an intense personal hostility against Nicholas Biddle. While the mistakes of Biddle and the other presidents of the Bank are freely granted by the author, there nevertheless appears at times almost an apologist's defense of Biddle's actions. This is, on balance, understandable, since Jackson's blunders were so sweeping and disastrous while Biddle's mistakes were relatively mere details.

By inference, the myth that Jackson was the great champion of the "common man" is further dissipated by Professor Smith's book, although this was surely not one of the author's purposes. The myth that the Bank was a gigantic financial dragon, which might, but for the valor of St. George (Jackson) devour the American people is, of course, also exposed. Basically, the Bank came into conflict with Jackson because it was ahead of its time in the America of the 1816–36 period. The purposes and nature of a central bank might have been understood by a few financiers and executives in the larger cities, but to the vast majority of citizens living a primarily agricultural life, it was incomprehensible and hence menacing. Obviously, men such as Hamilton, Albert, Gallatin and Chief Justice Marshall favored a central bank with issue privileges; but thorough-going Jeffersonian and Jacksonian Democrats would just as obviously oppose it.

Professor Smith's book leaves few stones unturned. One who has studied this book knows all of the pertinent facts concerning the financial, economic and political activities of the Bank, its chief officers and its principal opponents. Documentation is painstakingly thorough, and charts and tables are presented which illuminate the whole period. In these statistics one can find factual evidence for or against charges that the Bank fostered inflation, deliberately created deflation or used its credit powers for speculative or political purposes.

It appears to this reviewer that, while Professor Smith's book does not add anything significant to our knowledge of the economic and political developments of the period under consideration, it does, however, supply an authoritative, detailed review of this significant era. As such it should be a valuable addition to the libraries of economists, historians and political scientists.

University of the South JAMES E. THOROGOOD

Farm Policies of the United States, 1790–1950: A Study of their Origins and Development. By Murray R. Benedict. New York: Twentieth Century Fund, 1953. Pp. xv, 548. $5.00.

While a great deal has been written on the subject of farm policies much of it has been somewhat less than objective and some of it wholly biased. A considerable part of the rest has made very dry reading. Dr. Benedict's momentous work is different. As the subtitle implies, this is no mere appraisal of the numerous bits of legislation which have spelled out the farm policies of this country; it is a record of their origin, of the climate in which they developed and of the people

who brought them into being—all delightfully flavored with just the right amount of personal opinion.

A main thesis of the book is that farm policies in general do not emerge suddenly and in full bloom but slowly over long periods of time. The result sometimes is that the emergence of the policy does not always coincide with the intensity of the problem with which it is supposed to deal. Likewise, policies sometimes persist long after the problems have subsided and attitudes toward them have changed.

In succession, Dr. Benedict passes in review the rise, and sometimes the fall, of the interests and grievances of American farmers as reflected in their efforts to influence legislation. "In the early years," he says, "their attention centered on the land problem, money matters, the tariff and internal improvements." As time went on, however, these were gradually overshadowed by "concern over the slavery issue, the monopoly problem, and the desire to achieve better organization of marketing and buying activities." However, the opening of the twentieth century began "a new era in American agriculture" and farmers found themselves occupied with "the problems of credit, of market organization and of price relationships."

Agriculture had, according to Dr. Benedict, "come of age" and except for World War I and its aftermath its history and its policies would most certainly have been different. Of the war "boom and bust" Dr. Benedict says, "An opportunity which might for the first time in its history have put American agriculture in a strong financial position was recklessly squandered. . . . It was in the immediate postwar boom that the wildest speculative excesses occurred and that the basis was laid for the major troubles of farmers in the years to follow."

These troubles were not long in coming and by the spring of 1921 American agriculture found itself in a position which was possibly more unfavorable than at any time in the nation's history. Numerous emergency measures were enacted to meet the situation but, as Dr. Benedict says, "prosperity was not to be restored by controlling grain exchanges and the packing industry, or even by a reduction in freight rates." However, "the prophets of a new approach were on the scene and stepped forward with what was shortly to become widely known under the general term 'Equality for Agriculture,' and more specifically as the McNary-Haugen Plan."

Of the price and income supports which finally evolved out of the efforts to achieve "equality for agriculture", Dr. Benedict concludes as follows: "Farm people will themselves need to make a choice as to whether they wish to throw their influence on the side of a continually widening reliance on government aid, and its inevitable concomitant—a constantly increasing amount of government control—or whether they choose to regard government intervention as something to be used only temporarily and in times of genuine need."

More than half of Dr. Benedict's book is devoted to that which came after McNary-Haugen. However, this is a more recent and familiar story and should be read in detail both for an extremely clear and well documented account of what transpired and for pure enjoyment. The entire book has the interest of a

"who-done-it" and the substance of an encyclopedia, yet there are only four tables in the entire text. It is printed in the new two column style which makes for easy reading and is further improved by use of numerous subheadings.

Clemson College G. H. AULL

The Harvest Labor Market in California. By Lloyd H. Fisher. Cambridge, Mass.: Harvard University Press, 1953. Pp. 183. $4.50.

When death takes the author of a book a few days prior to the date upon which his book is published, as was the case with Lloyd H. Fisher, the reviewer may feel naturally inclined to read the work with a somewhat less critical eye and with more charity. Such an attitude, however, is not required; nor would the author have desired it. Moreover, irrespective of the tragedy surrounding the publication of the book, Fisher's work is worthy of a favorable review on the basis of its merits alone.

Although *The Harvest Labor Market in California* will be of interest primarily to the economist and the sociologist, persons in all walks of life who feel themselves a part of greater humanity will find its pages instructive and challenging. This is not to say that Fisher makes an emotional appeal to his reader. Quite to the contrary, the well-known plight of the migratory farm laborer receives little attention except as its brief mention serves to supplement the author's well documented analysis of the institutional aspects of the demand for and supply of labor in the California harvest labor market. The theoretical economist will find the book interesting from the standpoint of the author's analysis of the economic forces lying behind the more apparent institutional manifestations of the labor market. Fisher refers to this market as a "structureless market" which he says is characterized by five conditions: (1) the absence of unions, along with their accompanying influences upon labor supply, (2) a relationship between employer and employee that is impersonal and without mutual institutional obligations, (3) the absence of those types of production requiring significant division of labor along lines of specialization and skill, (4) a piece rate system of compensation, and (5) operations consisting primarily of hand labor with little or no machinery involved. Such is the market for harvest labor in California, where the author finds farming to be a business rather than a way of life and where crops are harvested by migratory laborers who usually remain anonymous not only to the owner of the crop but also to the host of labor contractors who serve as middlemen in supplying labor to the farm. Of this impersonal agricultural economy, Fisher has the following to say:

> California has a slightly shady reputation among students of agriculture. The well-cherished notion of the husbandman tending his soil, of intimacy between man and the productive urge of nature, although less and less easy to document in any major farming area, is most difficult to discover in California.

According to the author, it is often difficult to determine exactly who is the employer of the farm laborer—the owner of the crop or the labor contractor. The latter, like the migratory laborer, operates without the benefit of a formal

organization to protect his interests, but the farmer has numerous associations of growers which meet periodically to determine what the "prevailing wage" shall be for the harvesting of each crop. Accordingly the author states:

> The proliferation of wage-fixing organizations in California agriculture is so extensive and all-embracing that there would be no reason short of illiteracy combined with serious defects of hearing for any farmer to be unaware of the 'prevailing' wage rate for any commodity in any season. It is probable that in no sector of industry has employer wage agreement begun to approach its development in agriculture.

One might think that in such a market situation as this, the solution from the laborer's standpoint would be to organize; but although the author does state that this possibly would improve the worker's position, he argues that private attempts at reform would largely prove unsuccessful. He refers to the task as being "... of herculean size and of extreme complexity," including problems of housing and transportation, registration and limitation of labor supply, wage determination, decasualization of employment, control of child labor, providing of health and educational services, the reorganization of agricultural production, along with many other complex problems. If an organized attack upon these problems is to be successful, Fisher maintains, it must come through government regulation, preferably federal; however, he states that the task is beyond rational solution not because of the lack of knowledge of techniques for reform, but because solutions are unenforceable. The seasonal worker, therefore, must wait for the long run changes taking place in methods and techniques of agricultural production which will mechanize agricultural harvests and thus tend to reduce the demand for harvest labor. Such a demand reduction will then tend to stabilize job opportunities for the relatively smaller working force. "The brightest hope for the welfare of the seasonal agricultural workers lies with the elimination of the jobs upon which they now depend, and the development of programs for the transfer of workers from agricultural to industrial labor markets." At this point the author sees a need for constructive governmental action to assist in the training and placement of displaced workers who must leave agricultural for industrial pursuits.

Alabama Polytechnic Institute JOHN W. KENNEDY

Price Control and the Reign of Terror: France, 1793–1795. By William Finley Shepard. (University of California Publications in History, Vol. 45.) Berkeley and Los Angeles: University of California Press, 1953. Pp. iv, 140. Paper, $2.00; cloth, $3.00.

The French Revolution serves as a multi-purpose "laboratory" for historians and other social scientists. Much has already been written on the economic aspects of that period of history, including the short-lived attempt at government control of prices and wages, but much remains to be learned. Unfortunately, the volume under review contributes little of significance.

This is due, in the first place, to the fact that in spite of the title only three chapters (containing less than 35 pages of text) are devoted explicitly to the

subject: Chapter I summarizes the events leading up to the imposition of general price and wage controls in 1793 (scant attention being paid to the excessive issue of the assignats); Chapter VI takes up the measures adopted by the opponents of price control to weaken its operation; and Chapter VIII consists of summaries of the arguments presented in the Convention aiming at the repeal of controls a year and two months after they were enacted. The remainder of the book deals with such "related" matters of "economic control" as the nationalized munitions industry and with the machinations of the politicians.

Treatment of the subject stated in the title is thus severely limited, but a more basic reason why the book does not fulfill its promise lies with the manner of treatment. The author is obviously a tyro in the field of economics. This is illustrated by his failure to recognize that inflation and currency depreciation are two sides of the same coin: "By 1793 the prices of many prime necessities had more than doubled their 1789 levels. . . . The economic situation was further complicated by the depreciation of the national currency, the assignat" [p. 3]. It is not necessary that the author be a trained economist, but he should have, as a minimum, acquainted himself with the economic issues raised by the problem of price control. His method and sources are those of conventional political history. (All primary sources used are to be found in collections of published documents; heavy reliance is placed on the *Archives parlementaires* and the *Réimpression de l'ancien Moniteur*.) In this light, price control becomes an issue in a quasi-class struggle between left-wing planners (Jacobins) and right-wing advocates of free enterprise (Thermidorians) on which the whole outcome of the Revolution depends. Conspicuously absent or notably deficient in treatment are comparisons of legal and black market prices (there is no mention of a price index anywhere in the book; isolated price quotations or comparisons are extremely rare), information regarding the imposition, administration, and enforcement of the controls, and analysis of the economic and financial (apart from the political) causes and consequences of the *maximum*.

The burden of this criticism is not that historians should be discouraged from investigating historical economic phenomena; on the contrary, they are to be commended for doing so. But they owe it to themselves, their profession, and the entire world of scholarship to recognize that economic history is a distinct discipline with distinctive problems and methods. In this case, at least, it appears that the responsibility of the author should be shared with his advisers and with the editors of the University of California Publications in History.

University of Wisconsin RONDO E. CAMERON

The Influence of England on the French Agronomes, 1750–1789. By Andre J. Bourde. (Cambridge Studies in Economic History; M. M. Postan, General Editor.) New York: Cambridge University Press, 1953. Pp. xi, 250. $6.00.

Most economists are familiar with the work of the physiocrats, or *les économistes* as they were known to their contemporaries. Few, however, will be acquainted with another group of French agrarian reformers of the same period, the *agronomes*. Whereas the physiocrats might be compared with modern agri-

cultural economists, the *agronomes* were, as the term implies, interested in the technical aspects of agriculture.

Dr. Bourde's study thoroughly documents a special case of the general influence of the Enlightenment, and particularly the international exchange of ideas which was characteristic of it. French political and scientific thought of the eighteenth century owed much to the exposition of English institutions and science by the *philosophes*; on the other hand, Adam Smith obtained many of his notions through his acquaintance with the physiocrats. On account of the vastly greater development of scientific and experimental farming in England, most of the *agronomes* were also *anglomanes*.

The movement for reform was carried on mainly through the medium of publications. The *agronomes* themselves were educated men, although it is not clear from the work under review from what particular social class or classes they were drawn. It is true, however, that the fad for farming *à l'anglaise*, which was typified by Marie Antoinette's *Le hameau*, owed much to the patronage of the movement by such notables as the Duc d'Orleans, the Maréchal de Noailles, and the Marquis de Turgot. The French government did not take a prominent part, although it did maintain "spies" in England to observe the latest techniques; and on at least one occasion it supported smugglers to obtain live sheep, the exportation of which from England was forbidden by law.

The reformers advocated at one time or another the adoption in France of practically every innovation, good and bad, made in England—enclosure, continuous cropping, improved pasture, selective breeding of livestock, artificial fertilization, new crops and implements, and so on. Some, however, recognized the necessity of modifications to suit the peculiar characteristics of French conditions; and a few even carried on experiments of their own. The Englishman who had the greatest influence on the *agronomes* was Jethro Tull, the merits of whose "advances" are still controverted. That this was so was due largely to Duhamel du Monceau, whose projected translation of Tull's *Horse-hoeing Husbandry* actually turned out to be an original treatise in six volumes, *Traité de la Culture des Terres suivant les principes de M. Tull, Anglais.*

In view of the great scientific and literary interest generated by the movement, it is only natural to ask what were the practical results. The question is easily answered: virtually none. In the words of the author, "the insistence . . . on English methods is less a fact of economic history than a fact of the history of ideas." Obstacles were posed by the still powerful remnants of the feudal system, the "traditionalist mentality" of the French peasant, the frivolousness and dissipation of the nobility, and also, according to the author, to the "geographical conditions peculiar to France."

The *agronomes*, interested as they were in propagating the new techniques in France, did not point out that these were not universally utilized in England. But Dr. Bourde might have done so; as it is, he is likely to leave the impression that England was a farming paradise. There is likewise almost no space devoted —except a few lines in conclusion—to the reasons for the resistance to the introduction of the new techniques in France. Information on this matter, as on

the personal and social backgrounds of the reformers, is necessary for a full appreciation of the place and importance of the movement in France.

The unity of the work suffers from the fact that the 223 pages of text are divided into five parts, 13 chapters, a conclusion, and two appendices. On the other hand, specialists are not likely to complain of a lack of documentation in view of the 19 page bibliography and the fact that footnoted references average four or five to a page. The Cambridge University Press has done its usual fine job of design and manufacture.

University of Wisconsin RONDO E. CAMERON

PERSONNEL NOTES

Louis Acuff has joined the staff of the Department of Institutional Management at Mississippi State College as assistant professor.

Albert W. Anthony has been appointed instructor in the Department of Government in the School of Business Administration at the University of Miami.

Fred H. Arnold, professor of economics at Alabama Polytechnic Institute, participated in a three weeks conference on Economic Education sponsored by the Committee on Economic Education in New York City during August.

Lowell DeWitt Ashby has been promoted to professor of economics at the University of North Carolina.

E. K. Austin, associate professor of marketing at the University of Alabama, was visiting professor in the School of Business, Florida State University, last summer.

Robert W. Barclay has been promoted to assistant professor in the Department of Management at the University of Miami School of Business Administration.

John L. Bass has been appointed assistant professor of economics at Alabama Polytechnic Institute.

William H. Baughn, professor of economics in the College of Commerce, Louisiana State University, was elected second vice president of the Southern Economic Association at its last annual meeting in November.

Earl D. Bennett has returned from graduate work at the University of Michigan to resume his duties in the School of Business Administration, Louisiana Polytechnic Institute.

Martin L. Black, Jr., of Duke University, has been selected as editor of the *Cooperative Accountant*, which is the official publication of the National Society of Accountants for Cooperatives.

James H. Blackman, formerly on the staff of The Johns Hopkins University, has been appointed associate professor of economics at the University of South Carolina.

Russell Bowers, formerly lecturer in business administration at Emory University, has been appointed professor at the College of Business Administration, University of Georgia, for the fall quarter, 1953.

Jess W. Brandon has been appointed assistant professor of accounting in the School of Business Administration at the University of Miami.

William E. Breece has resigned as assistant professor of marketing, University of Florida, to accept a position at Carroll College.

James M. Buchanan, professor of economics at Florida State University, was a part-time consultant to the Southern Regional Education Board during the summer of 1953.

Robert L. Bunting has returned to his position as assistant professor of economics at the University of North Carolina after a two-year military leave of absence.

Gilbert Bythewood has been appointed instructor in business administration at Louisiana State University.

Thomas H. Carroll, dean of the University of North Carolina School of Business Administration, has resigned as of June 1 to accept the position of associate director of the Ford Foundation.

John Champion is assistant professor, with principal duties in the office of the Director of Student Guidance at the Atlanta Division, University of Georgia.

Jack L. Codding has resigned as instructor in the Accounting Department, University of Florida, to enter private business.

Clyas Crenshaw, assistant agricultural economist at Clemson College, resigned on September 1 to join the Florida Crop Reporting Service, Orlando, Florida.

William D. Crapps, of Leesville, South Carolina, joined the Economics Department of Lenoir Rhyne College in September.

Alex H. Cruickshanks, III, has replaced James Parthemos as professor of economics at Presbyterian College, Clinton, South Carolina.

George W. Cubbery, instructor in marketing in the School of Business Administration at the University of Miami, has been relieved of teaching duties to act as assistant to the Dean and Assistant Dean.

Joseph F. Curry has been made assistant professor of accounting in the Department of Economics and Business Administration at Alabama Polytechnic Institute.

J. Frank Dame, who served as dean of the School of Business since September, 1950, requested several months ago to be released from his administrative duties and has returned to devote full time to his principal interest as head of the Department of Business Education, Florida State University.

James E. Davis has been promoted to assistant professor in the Department of Business Education at the University of Miami School of Business Administration.

Kenneth R. Davis has resigned his position as assistant professor of marketing at the University of North Carolina to join the faculty of the Amos Tuck School at Dartmouth College.

John Dixon, assistant professor of economics, left the faculty of Mississippi Southern College to accept a job in a private industry.

Arch R. Dooley has been appointed assistant dean of the School of Business Administration at the University of North Carolina.

John M. Dyer has been appointed assistant professor of marketing in the School of Business Administration at the University of Miami.

William Endy has resigned as instructor in accounting at Louisiana State University.

Richard F. Ericson was appointed associate professor and head of the Department of Economics at Stetson University in 1952.

John C. Ewing has joined the staff of the School of Business, Florida State University.

W. C. Flewellen, Jr., assistant professor of accounting and assistant to the

Dean of the College of Commerce and Business Administration at the University of Alabama, has returned from leave spent at Columbia University.

William A. Flinn has returned to his position in the School of Industrial Management, Georgia Institute of Technology, after a year and a half of advanced study at Ohio State University.

Frances Foster, formerly of Brenau College, has been appointed instructor of secretarial science at the University of South Carolina.

Minard L. Foster has been appointed assistant professor in the Department of Marketing of the School of Business Administration at the University of Miami.

John L. Fulmer, formerly research associate at the Bureau of Population and Economic Research, University of Virginia, is now associate professor of business administration at the School of Business Administration, Emory University.

C. M. Gittinger, of the University of South Carolina, is on leave during the fall semester completing his graduate work at New York University.

David Granick has received an appointment as research associate in the Institute for Research in Social Science at the University of North Carolina for the current year and will serve as a visiting lecturer in economics during the spring semester.

F. J. Guerra has been appointed instructor in accounting at Louisiana State University.

Wesley C. Harter has been promoted to professor of business law and insurance in the School of Business, Florida State University.

Raymond W. Heatwole, associate professor of economics, has returned to Furman University after a year in graduate study at the University of Virginia.

Harold Heck has returned to his duties as professor of business administration at Tulane University after a year's leave of absence spent in Japan under a Fullbright Fellowship.

W. L. Heuser has been appointed instructor in economics at Louisiana State University.

Glen L. Hodge has resigned as professor of business law at Louisiana Polytechnic Institute.

Charles M. Hewitt, assistant professor of business law at the University of Alabama, is on leave of absence as visiting lecturer on business law at Indiana University.

Lewis E. Hill, assistant economist at Furman University, has returned from two years of graduate study at the University of Texas.

Joseph Samuel Hopson, formerly at the University of Texas, has been appointed assistant professor of accounting at the College of Business Administration, University of Georgia.

Robert W. Kane has been appointed instructor in management and coordinator of the work in Aeronautical Management at the University of Miami School of Business Administration after extensive experience in the air industry.

Bruce W. Kelly has transferred from instructor of economics to the position

of assistant economist in the Department of Agricultural Economics at the University of Florida.

Charles A. Kirkpatrick has been promoted to professor of marketing at the University of North Carolina.

Fred W. Kniffen is on leave of absence from the School of Business, University of Louisville, to do graduate work at Indiana University.

William L. Larger has been appointed instructor in marketing at the School of Business, University of Louisville.

Emanuel M. Last has been promoted to professor of marketing and appointed chairman of the Department of Business Management in the School of Business Administration, University of Richmond.

L. R. LaValle, recently of the University of Wichita, is now assistant professor of economics at Mississippi Southern College.

Richard Ivor Levin is serving as a teaching assistant in production during the fall semester at the University of North Carolina.

Harry A. Lipson, assistant professor of marketing at the University of Alabama, is on leave in residence to complete his dissertation in fulfillment of the requirements for the Doctorate at the University of Pennsylvania.

E. V. McCollough, assistant professor of accounting at Louisiana State University, has returned from a military leave of several years.

Stuart McFarland is associate professor of marketing and head of the Division of Marketing at the Atlanta Division, University of Georgia.

John B. McFerrin, head of the Department of Business Organization and Operation in the College of Business Administration, University of Florida, was elected president of the Southern Economic Association at its annual meeting last November.

John P. Maggard has received an appointment as part-time instructor in economics at the University of North Carolina.

William R. Matthies has been granted a leave of absence from his position as associate professor of accounting, University of Florida, to pursue his graduate study at Ohio State University.

Raymond F. Mikesell, professor of economics at the University of Virginia, has been granted leave of absence to teach in the National War College in Washington during the first semester.

Catherine McGinty Miles has been promoted to assistant professor of accounting at the Atlanta Division, University of Georgia.

Calvin C. Miller has been appointed instructor in business education in the School of Business, Florida State University.

F. Byers Miller, dean of the School of Business Administration, University of Richmond, has been elected to membership in the Controllers Institute of America.

Mabel D. Mills, formerly of the staff of the Bureau of Business and Economic Research, University of Miami, has been appointed instructor of economics, University of Florida.

Charles N. Moore, instructor in business statistics at the University of Ala-

bama, has returned from a leave spent in doing graduate work at the University of Michigan.

Charles T. Moore has been appointed assistant professor of marketing at Mississippi State College.

James F. Moore has been promoted to assistant professor of accounting, University of Florida.

George L. Moss has been appointed assistant professor in the Department of Accounting in the School of Business Administration at the University of Miami. Mr. Moss came from the University of California.

Charles E. Myler, Jr., has been appointed instructor in economics and marketing at Loyola University, New Orleans.

William R. Myles, assistant professor of economics at Alabama Polytechnic Institute, spent the summer in a detailed study of the personnel operations of the Brown-Lipe Chapen Division of General Motors at Syracuse.

Elizabeth O'Dell, assistant professor of secretarial science at the University of South Carolina, is on leave for a year's study at Columbia University.

Charles Overmiller has resigned as assistant professor of business administration at Louisiana State University to accept a position with the Federal Reserve Bank of Atlanta.

Willis J. Pardoe has joined the faculty of the School of Business, Florida State University, as assistant professor of accounting.

James M. Parrish has been appointed a lecturer in economics at the University of North Carolina.

James Partehmos, formerly of Presbyterian College, Clinton, South Carolina, has been appointed assistant professor of economics at the University of South Carolina.

Robert L. Patrick, formerly at the University of Illinois, has been appointed professor of business law at Louisiana Polytechnic Institute.

Harry R. Price has returned as assistant professor of accounting to the School of Business Administration at the University of Miami after having been on a leave of absence for one year at Northwestern University where he has completed all of the requirements for the Ph.D. degree.

Nestor R. Roos has been appointed assistant professor of management at the Atlanta Division, University of Georgia.

Neville L. Rucker has been appointed assistant professor of economics at Davidson College for 1953–54, replacing Charles E. Ratliff who is on leave to do further graduate work.

Howard G. Schaller, formerly of the University of Tennessee, has accepted an appointment as assistant professor of economics at Tulane University.

Ned H. Scott has resigned as assistant professor of accounting, University of Florida, to enter private business.

Ansel Sharp has been appointed instructor in economics at Louisiana State University.

Walter L. Shell has joined the Department of Economics and Business Ad-

ministration at Alabama Polytechnic Institute as assistant professor in office management and secretarial science.

G. Findlay Shirras, who has held many important positions both in the government and in university work in India and Great Britain during the past several decades, has been appointed visiting professor of economics, University of Florida, for 1953–54.

Elbert V. Silver, professor of accounting at the University of Miami, has been granted a leave of absence to do work on his S. J. D. degree at New York University.

John W. Skinner has been appointed assistant professor of economics at Stetson University for the current academic year.

B. F. Sliger, formerly at Michigan State College, has been appointed assistant professor of economics at Louisiana State University.

Howard R. Smith, professor of economics in the College of Business Administration of the University of Georgia, was reelected secretary-treasurer of the Southern Economic Association at the annual meeting last November.

Warren L. Smith, of the University of Michigan, has been appointed assistant professor of money and banking at the University of Virginia.

Elizabeth Sorbet has been appointed instructor in business administration at Louisiana State University.

J. Ben Stalvey, professor of government in the School of Business Administration, has returned to the University of Miami after a two-year leave of absence spent in Geneva, Switzerland, with the Friends Organization.

H. Ellsworth Steele, research professor in economics at Alabama Polytechnic Institute, participated in the Conference on Economic Development of the South held at Nashville, Tennessee, September 10–12.

James J. Steiner has been raised to associate professor in the Department of Management at the University of Miami School of Business Administration.

Richard J. Stevens has been appointed associate professor of marketing in the School of Business, Florida State University.

Charles D. Stone has been appointed instructor in the Department of Banking Science and Management in the School of Business, Florida State University.

G. Winston Summerhill has been appointed a visiting lecturer in business administration at the University of North Carolina.

Bruno K. Suviranta, head of the Political Science Department at the University of Helsinki, is visiting professor of economics at the University of Mississippi under a John Hay Whitney scholarship.

Ernst W. Swanson, professor of economics in the School of Business Administration of Emory University, was elected first vice president of the Southern Economic Association at its last annual meeting.

L. M. Valentine, formerly at the University of California at Los Angeles, has been appointed visiting assistant professor of business administration at Louisiana State University.

Herbert von Beckerath, of Duke University, lectured during the past summer at the Universities of Cologne, Bonn, and Marburg in Germany.

Gerald E. Warren, professor of economics in the College of Commerce and

Business Administration, Tulane University, was elected to the board of editors of the Southern Economic Association at its annual meeting in November.

Alexander I. Warrington has resigned as instructor in economics and marketing at Loyola University, New Orleans.

W. Bruce Weale has been promoted to professor of marketing in the School of Business, Florida State University. During the summer, Professor Weale was assigned to the National Biscuit Company, New York, on a fellowship from the Foundation of Economic Education.

Robert L. Wendt, instructor in economics at Meredith College, studied at the Case Institute of Technology under the Economics-in-Action Program offered last summer by Case and sponsored by the Republic Steel Corporation.

William Lemont Williams, formerly with the Atomic Energy Commission at Augusta, Georgia, has been appointed instructor in accounting at the College of Business Administration, University of Georgia.

John W. Wyatt has been promoted to associate professor of business law, University of Florida.

Howard A. Zacur has been raised to full professor in the Department of Accounting in the School of Business Administration at the University of Miami.

John T. Zumbro, formerly at the University of Tennessee and more recently district economist with OPS, has been appointed associate professor of economics at Millsaps College.

* * *

The following names have been added to the membership of the Southern Economic Association:

Charles W. Campbell, Prudential Insurance Company of America, Newark, N. J.

Dale L. Cramer, College of Commerce, Louisiana State University, Baton Rouge, La.

Norman Dressel, University of Chattanooga, Chattanooga, Tenn.

Murray C. Flynn, 505 Main Street, Montevallo, Ala.

Jack H. Gunnells, University of North Carolina, Chapel Hill, N. C.

Harry K. McLemore, North Mississippi Development Association, West Point, Miss.

W. H. Milner, Memphis State College, Memphis, Tenn.

John R. Moore, University of Tennessee, Knoxville, Tenn.

John W. Skinner, Stetson University, DeLand, Fla.

Bernard F. Sliger, College of Commerce, Louisiana State University, Baton Rouge, La.

G. Winston Summerhill, School of Business Administration, University of North Carolina, Chapel Hill, N. C.

Rudolph Trenton, Oklahoma A & M College, Stillwater, Okla.

Lloyd M. Valentine, College of Commerce, Louisiana State University, Baton Rouge, La.

Elsie M. Watters, School of Business Administration, Tulane University, New Orleans, La.

NOTES

The SOUTHERN ECONOMIC JOURNAL

Financial Statement for the Fiscal Year Ending October 31, 1953

CASH BALANCE, November 1, 1952			$317.82
INCOME:			
University of North Carolina			
Balance Annual Grant for 1952-1953	$1,500.00		
Advance on Annual Grant for 1953-1954	1,000.00		
Total		$2,500.00	
Southern Economic Association			
Annual Memberships	1,540.00		
Institutional Memberships	222.00		
Contributing Memberships	40.00		
Student Memberships	10.50		
Grant	500.00		
Gifts	1,141.00		
Total		3,453.50	
Office of Managing Editor			
Subscriptions to Journal	1,805.90		
Miscellaneous Sales of Journal	292.75		
Advertising	1,371.22		
Total		3,469.87	
TOTAL INCOME			9,423.37
TOTAL CASH BALANCE AND INCOME			$9,741.19
EXPENSES:			
Printing the Journal			
January Issue	$1,166.61		
April Issue	1,361.44		
July Issue	1,133.70		
October Issue	932.00		
Total		$4,593.75	
Other Printing		43.50	
General Expense		56.40	
Postage, Telephone, and Telegraph		171.56	
Supplies		178.47	
Salaries		1,500.25	
Purchase of Back Copies of Journal		12.00	
Travel		129.93	
Refunds		12.00	
TOTAL EXPENSE			$6,697.86
BALANCE, October 31, 1953			3,043.33
			$9,741.19

Balance Represents		
UNC Advance on 1953-1954 Annual Grant	$1,000.00	
Actual Balance	2,043.33	
		$3,043.33

G. T. SCHWENNING
Managing Editor

NOTE

SOUTHERN ECONOMIC ASSOCIATION

Receipts and Expenditures

CASH ON HAND, November 1, 1952			$1,006.86
RECEIPTS, Fiscal Year Ending October 31, 1953:			
Annual Memberships		$2,010.00	
Student Memberships		14.00	
Institutional Memberships		20.00	
Contributing Memberships		156.00	
Savings and Loan Dividends		16.21	
Gifts		1,025.00	
Miscellaneous		5.00	3,246.21
			$4,253.07
EXPENDITURES, Fiscal Year Ending October 31, 1953:			
Association Expenses:			
Postage	$34.52		
Supplies	21.36		
Printing	74.50		
Travel	123.38		
Miscellaneous	99.36	$353.12	
Investment Account:			
Divident Deposited		16.21	
The Southern Economic Journal		3,210.50	$3,579.83
CASH ON HAND, October 31, 1953			673.24
			$4,253.07

INVESTMENT ACCOUNT

BALANCE, November 1, 1952	$537.31
DIVIDEND DEPOSITED	16.21
BALANCE, October 31, 1953	$553.52

FUND BALANCES

CHECKING ACCOUNT, National Bank of Athens, Athens, Georgia	$673.24
INVESTMENT ACCOUNT, Athens Federal Savings and Loan Association, Athens, Georgia	553.52
TOTAL FUNDS, October 31, 1953	$1,226.76

HOWARD R. SMITH
Treasurer

NOTE

COOPERATIVE GRADUATE SUMMER SESSIONS IN STATISTICS

Beginning in 1954 North Carolina State College, the University of Florida, Virginia Polytechnic Institute and the Southern Regional Education Board will jointly sponsor cooperative Graduate Summer Sessions in Statistics.

The first session will be conducted by a distinguished faculty at Virginia Polytechnic Institute in the summer of 1954. Additional summer sessions are tentatively planned for North Carolina State College and the University of Florida in the two following years. Subsequent sessions will be rotated among these or other institutions throughout the South.

The summer sessions are designed to carry out a recommendation of the Southern Regional Education Board's Commission on Statistics, on which the three institutions initiating the program are represented. They will be of particular interest to (1) research and professional workers who want intensive instruction in basic statistical concepts and who wish to learn modern statistical methodology; (2) teachers of elementary statistical courses who want some formal training in modern statistics; (3) prospective candidates for graduate degrees in statistics; (4) graduate students in other fields who desire supporting work in statistics; and (5) professional statisticians who wish to keep informed of advanced specialized theory and methods.

Each of the summer sessions will last six weeks and each course will carry three semester hours of graduate credit, with a maximum of six semester hour credits earned in one summer. The courses are arranged to enable the person to take consecutive work in successive summers. The summer work in stastistics may be applied at any one of the cooperating institutions in partial fulfillment of the requirements for a Master's degree. The catalog requirements for the degree must be met at the degree-granting institutions. Each Doctoral candidate should consult with the institution from which he desires to obtain the degree regarding the applicability of the summer courses in statistics.

During the first session Professor Maurice Kendall of the University of London will give a course in Multi-variate Analysis, and Dr. Ralph Comstock of North Carolina State College will give one in Quantitative Genetics.

The staff of the Virginia Polytechnic Institute's Department of Statistics will offer such courses as Probability and Inference, Analysis of Variance, Statistical Methods, Engineering Statistics, Education Statistics, Rank Order Statistics and the Theory of Sequential Methods.

The department includes R. A. Bradley, D. B. Duncan, M. C. K. Tweedie, P. M. Somerville and Boyd Harshbarger. In addition, other outstanding statistical scholars will direct special afternoon seminars. The agricultural, science and engineering divisions of the College will make available advanced courses for students who wish to supplement their work in statistics.

The Virginia Polytechnic Institute is located at Blacksburg in the scenic Allegheny Mountains. The summer climate is delightful.

The fee for the Virginia Polytechnic Institute session is $30.00. Board, room, post office box and laundry for the entire session may be had for $76.40. The session will run from June 9 through July 17, 1954.

Inquiries should be addressed to Boyd Harshbarger, Head, Department of Statistics, Virginia Polytechnic Institute, Blacksburg, Virginia.

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Supply and Prices; VIII. *Prices, Profits and Wages;* IX. *Why The Businessman?;* X. *How Competitive is the American Economy?;* XI. *Understanding the Economic System and its Functions;* XII. *Spending and Taxing;* XIII. *Taxing, Spending, and Debt Management;* XIV. *Labor and the American Economy;* XV. *Individual and Group Security;* XVI. *International Trade, Investment and Commercial Policy;* XVII. *The Ethics of Capitalism.* Washington, D. C.: Economic Research Department, Chamber of Commerce of the United States, 1953. Pp. 18 to 56 per pamphlet. Paper, 50¢ each; $6.00 the set.

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Applications for membership should be addressed to Howard R. Smith, University of Georgia, Athens, Georgia.